The performance of worker co-operatives in a capitalist economy: British co-operatives in printing, clothing and wholefoods, 1975-1985

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The Performance of Worker Co-operatives in a Capitalist Economy: British Co-operatives in Printing, Clothing and Wholefoods, 1975-1985.

A study in political economy

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Abstract

This thesis aims to contribute to the debate on the role and potential of worker co-operatives in a capitalist economy, and analyses the development of the co-operative sector in Britain since the mid-1970s in the context of an economy undergoing a major crisis and restructuring.

Part One examines competing theoretical perspectives in economics towards co-operatives. This reviews and criticises the orthodox neoclassical and behavioural approaches, before turning to a marxist analysis and developing it in the context of co-operatives' role as small enterprises in an economy dominated by large firms. The analysis concentrates upon co-operatives' market relationships and competitive position as the mechanism through which they interact with the rest of the economy.

Part Two moves from theory to the concrete, and examines the performance of workers co-operatives as commercial enterprises, in three industries (printing, clothing manufacture, and wholefood distribution) which demonstrate contrasting relationships between large and small firms. It includes an overview of the development and characteristics of the co-operative sector, before investigating the financing of co-operatives and their commercial performance. This is then explained in the context of the political and economic development of the co-operative sector, of the British economy, and developments in the industries in question. It finds that whilst the performance of co-operatives has improved over time, it remains worse than that of competing capitalist firms in terms of wage levels and capacity to generate a reinvestible surplus.

Part Three builds upon this work to identify the important conditions and processes which have contributed to the rapid growth and development of the co-operative sector in Britain, and seeks to develop a broad understanding of the means by which the degeneration of co-operatives can be avoided. It concludes that the resurgence and growth of co-operatives must be located in the particular form of economic restructuring taking place in the early 1980s. The establishment and survival of co-operatives has been dependent upon support for workers' initiatives by the state, and on the nature of market processes in particular areas of the economy. However, these conditions are transient and the future development of the co-operative sector is crucially dependent upon the long term support of the state and the labour movement.

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Abbreviations

CAG	Co-operative Advisory Group
CBI	Confederation of British Industry
CDA	Co-operative development agency
CMT	Cut, make & trim
CPF	Co-operative Productive Federation
CRS	Co-operative Retail Society
CSO	Co-operative support organisation
CWS	Co-operative Wholesale Society
DE	Department of Employment
DTI	Department of Trade and Industry
GLC	Greater London Council
GLEB	Greater London Enterprise Board
ICOF	Industrial Common Ownership Finance
ICOM	Industrial Common Ownership Movement
LCEB	London Co-operative Enterprise Board
LCPA	London Co-operative Printers Association
LICOM	London ICOM
NNLCDA	National Network of Local CDAs
SCDC	Scottish Co-operative Development Committee
TUC	Trades Union Congress

Preface

For much of the post-war period there was a broad consensus across political perspectives that most of Britain's economic problems could be solved by Keynesian demand management techniques designed to increase economic growth. 'Fine tuning' of the economy, balancing low levels of unemployment and inflation, was seen as the way to avoid any repeat of the social and economic disaster of the 1930s and previous depressions in the nineteenth century. Continuous economic growth managed by the state would provide an increasing material standard of living and provide the resources to alleviate any remaining pockets of poverty.

Eventually, however, the long boom collapsed under the weight of its own domestic and international contradictions, and so too did the social democratic consensus as its material economic base disappeared. The past fifteen years, in contrast, have been a period of intense political and economic change in Britain, as temporarily submerged class divisions and interests are once again reasserted. The Labour government's last-gasp attempts to find a consensus solution to the crisis failed during the 1970s, and since 1979 the 'new Right' has held a dominant political and economic position. This has been used to bring about a restructuring of society and the economy in interests of major companies and finance capital, whilst the social provision developed in the post war era has been progressively dismantled, and the trade union movement undermined and attacked.

It is within this context that there has been a resurgence of political and economic interest in workers co-operatives. Although they have historically played a minor role in Britain, and had virtually disappeared by the early 1970s, since then many new co-operatives have been formed. Perhaps unusually in the present climate, they have attracted interest and support from throughout the political and economic spectrum; this naturally suggests that co-ops can be viewed - and used - in a variety of different ways. this broad range of support reflects their inherently contradictory role within capitalism; as enterprises owned and controlled by workers they do not fit neatly with capitalist patterns of ownership, while as socialist forms of enterprise they are continually subject to the constraining forces of a capitalist market economy.

Much support for co-ops has been based upon their role as an alternative to capitalist economic activity, as enterprises where production takes place under workers control and in their interests. Furthermore, they are seen as representing a democratic, community level response to the inhumanity of mass unemployment and increased inequality. As a potential decentralised socialist alternative, co-ops caught the enthusiasm of many, disillusioned with the bureaucratic and insensitive tradition of both multinational companies and nationalised industries. At a time when the labour movement was reeling under the twin impact of record levels of unemployment and legal restrictions on its activities, co-ops formed part of a wider grassroots resistance to capital, and were closely linked to the new power base of the left in the 'municipal socialist' local authorities. Furthermore, they could operate as a form of social(ist) ownership which paid attention not just to numbers of jobs and the appropriation of the product, but also to the nature of work, to democratic management and control, challenging the established capitalist-inspired hierarchical structure; perhaps they are visions of a socialist future.

Other supporters of co-ops saw them very differently of course. They could fit neatly into social democratic aspirations for a 'social market economy', as enterprises where the conflictual relationships between capital and labour no longer applied. On the right they could be incorporated into a reinvigorated 'worker capitalism' where trade unions were unnecessary and individual effort rewarded. The previous heyday of co-operatives was during the 19th century, and it is interesting that recent growth comes as 'Victorian values' are once again being reasserted. Whilst co-operatives in some ways reflect a collectivist response to social and economic problems, they operate against a background of intolerant individualism.

The upsurge of co-operative activity at a time of great social and economic dislocation suggests that the circumstances surrounding the growth and experience of co-ops need to be carefully analysed. Although enthusiasm for co-ops has its uses, many supporters appear to have jumped uncritically on the bandwagon, especially during the early 1980s when co-ops were 'flavour of the month' for several years. Many wild claims have been made about their potential role in transforming the British economy, in the absence of any considered analysis of their position. This is particularly necessary given the historical experience of co-ops in Britain, which has been uniformly cyclical and made no lasting impact. Therefore, especially for supporters of co-ops, it is necessary to undertake a historically-rooted analysis of the role that co-ops are currently playing in the economy, of the reasons for their re-emergence, and the conditions under which they might become successfully generalised.

The original objective of this research was to concentrate solely on the financing and commercial performance of the new British co-ops. Similar work had previously been carried out for the much larger co-op sectors in France and Italy, and also for the Victorian British co-ops which survived into this century. This narrow focus had to be quickly abandoned for two reasons. Firstly, these issues could not be solely analysed within a quantitative perspective. Indeed, much of the earlier quantitative work was of very limited usefulness for this very reason; it followed the conventional division of 'positive' economics from social and political issues, but as a result divorced any analysis from its social context. Although there is a role for quantitative analysis, it can only come within an appropriate political and economic framework which does not make this artificial distinction.

This led to the second problem, which was that despite the huge attention which co-ops had received, nowhere was there a politically-informed analysis of their role in the context of the extensive economic changes and restructuring which had taken place during the 1970s and 1980s. Co-ops are dominated by their contradictory position in a capitalist economy, as enterprises where workers own the means of production but operating as competitive commercial enterprises on terms largely dictated by capitalist firms; small enterprises in an economy dominated by large companies. Co-ops' existence is about the working out of these contradictions, and an analysis of them is the starting point of any considered assessment of their experience to date and future prospects. The quantitative aspects of co-ops' commercial performance are nevertheless important; ultimately co-ops either survive or die according to the judgement of competition in the market. However, markets and competition do not exist in isolation, nor do co-ops' relationships with them, and therefore much of the thesis is devoted to the political economy of worker co-ops and the industries in which they operate.

I have attempted to evaluate both the past experience of co-ops and their future prospects, not just passively but in a way which identifies the conditions under which the successful and progressive aspects of their experience can be generalised. Combining quantitative and qualitative analysis is not an easy task as the two are generally carried out in isolation from each other, and therefore much of the combination is experimental. Just as co-ops are part of a process, so is research, and the main assessment must be whether this exercise has made a positive contribution. I hope that despite its undoubted flaws, this research contributes to a more realistic assessment of how co-ops have reached their present position, and of their future.

Part I

The Economics of Co-operatives

Theory and Methodology

Part I - Contents

1. *Economics of Co-operatives*

Orthodox Analysis

INTRODUCTION

In the first two chapters I examine different approaches in economics towards the question of co-operative performance. These three perspectives - orthodox neoclassical, behavioural, and marxist - all analyse co-operatives in different ways, reflecting their contrasting conceptions of the capitalist economy. An examination of these schools of thought is important as they relate to the various roles which co-operatives take in practice - varying from competitive and commercially-oriented enterprises appealing to the individualistic self-interest of the workforce, through harmonious and democratic organisations overcoming the antagonism between capital and labour, to a "class-conscious vanguard of the labour movement"[1].

While there is a broad consensus of political support behind co-operatives, underlying this is a confusion as to what exactly a co-operative is, where it is going and what sort of economy and society would be associated with widespread co-operative activity. This confusion is both intensified by, and reflects, the contradictory and conflicting roles which co-operatives are urged to follow. The aim of these two chapters is to examine the economic perspectives beneath these possible roles for co-operatives, and hence to relate these roles to the particular conception of society on which each perspective is based.

An overview of the economics of co-operatives is important, because ultimately all analysis social science and explanation rests upon an implicit or explicit economic foundation. This foundation encompasses a number of crucially important factors, of different ways of conceptualising the world: how relationships between people operate, the basis of power and wealth, the nature and origin of processes of change. Different perspectives encompass conflicting and contradictory explanations of economic processes, and so it is necessary to clarify the economic basis of analyses of co-operatives and their activities.

The aim of these chapters is not simply to provide some kind of detached review of the economics of co-operatives. They aim to critically assess economic perspectives - and

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1 Clarke, 1984, p. 98.

specifically to reveal the inconsistencies and inadequacies of conventional analysis - before developing my own approach.

Most 'economics of co-operatives' - as with economics generally - is derived from a neoclassical perspective, resting upon an individualistic, ahistorical analysis, using elegant and formally correct mathematical models, but which offer little understanding of the real world. Some commentators have recognised the inappropriateness of using neoclassical theory to analyse co-operatives, essentially a collective activity, but amongst them there has been a strong tendency to to view co-operatives in organisational and behavioural terms. My own conclusion is that whilst this offers more insight than the neoclassical approach, it too fails to incorporate the fundamental structure and dynamic of a capitalist economy, again resting upon ahistorical analysis and omitting the major processes working on co-operatives and in the economy generally. In chapters 2 and 3 I turn to marxist economics in order to develop the approach used in this thesis. In contrast to neoclassical and behavioural approaches, marxist analysis of co-operatives is relatively underdeveloped, and has been marginalised within both bourgeois and radical social science. In part this is because it is seen as deterministic - co-ops will *inevitably* fail within a capitalist economy - but this in turn is due to misrepresentation of what many early marxist writers had to say. My aim is to demonstrate that such determinism is wrongly ascribed to marxist analysis of co-operatives, and secondly, that a marxist analysis is essential for a correct understanding of the process of co-operative development in a capitalist economy. Commensurate with the use of a marxist framework, my concern is with the potential of co-ops as anti-capitalist enterprises in the transformation of capitalism.

For each economic school of thought these chapters outline (i) the conception of society integral to the analysis and its basic approach to economics; (ii) how co-operatives are dealt with, and the main debates; (iii) weaknesses in the analysis, both generally and on the specific topic of co-operatives; (iv) the 'material context' of the development of each school of thought in terms of the historical development of capitalism and of co-operatives within capitalism. A recurring theme will be the ideological basis of each school of thought; this will be taken further and related to possibilities for alternative roles and paths of co-operative development in Part III.

Much of the debate around co-ops centres on the issue of 'degeneration'; can co-ops maintain their essential character whilst avoiding either degeneration into a capitalist firm, or commercial failure. However there is no agreement on the 'essential' character of co-ops. Because of the contrasting ideologies and values which the different analyses are based upon, there are very different ideas about where co-operatives should be going and the achievements they should be aiming for. 'Success' and 'failure' mean different things to different people, and 'performance' can only be judged against a specific set of value criteria. Therefore talk about the degeneration of co-operatives depends on what the perception of an 'ideal' co-operative is - should degeneration be viewed in commercial, organisational or class terms? I hope that these first two chapters will at least clarify some of these issues.

THE NEOCLASSICAL TRADITION

In common with economics as a whole, the neoclassical[2] approach dominates the economic analysis of worker co-operatives[3]. The main work has been carried out over the past thirty years, with Jaroslav Vanek developing the most coherent body of theory[4]. This itself extended the pioneering work of Ward and Domar[5], and has been further developed by Meade among others[6], and has stimulated a substantial amount of subsequent theoretical and empirical work[7].

The development of the neoclassical tradition had two main influences. Firstly, material developments in the activities of worker co-operative or self-managed sectors in various economies, especially in western Europe[8] and Yugoslavia. The second influence was developments in the study of economics itself.

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2 There are various definitions of neoclassical economics. I understand it as an analysis of markets and prices in an economy constituted of individual economic agents (consumers and producers) endowed with fixed tastes, talents and wealth, and who calculate actions so as to maximise personal utility or welfare. Other economists (e.g. Hahn, 1982, p. 354) would relate it more narrowly to perfect competition (all agents are price takers), or solely to profit maximising behaviour by firms and utility maximising by individuals.

3 Or 'self-management' as it is often referred to in the literature.

4 Vanek, 1970, 1971, 1977.

5 Ward, 1958; Domar, 1966.

6 Meade, 1972. Major contributions have also been made by e.g. Furubotn (1976); Jensen & Meckling (1979). For a bibliography of neoclasical writings on co-operatives/self-management see Bartlett & Uvalic, 1985.

7 Much of it centered on Cornell University, New York, and in Yugoslavia.

8 For historical accounts see Thornley, 1981, on British and other European co-operative movements; Clarke's A Peaceful Revolution? The Politics of Workers' Co-operatives 1800-1980 (1983c, chapter 2); Pollard, 1967; Oakeshott, 1978.

Self-management and economics in history: the emergence of neoclassical economics

The early co-operative experiments in both Britain and Europe emerged with capitalism itself from the industrial revolution, and at this time economics[9] was dominated by the classical tradition: that of Adam Smith and Ricardo[10] (and later Marx). The major questions which concerned Smith and Ricardo related to the nature of the processes which led to the creation of 'The Wealth of Nations', and to the reasons for the particular distribution of that wealth amongst society's various classes. Marx too was concerned with similar issues - the 'laws of motion of capitalism' although his analysis was very different. Smith considered at length whether the source of value of a commodity was the labour embodied in its production or the labour commanded through its exchange. He never satisfactorily resolved this contradiction, but the two theories were adopted by competing schools in economic thought. Ricardo drew upon Smith's labour-input approach and developed economic theory, which, in the turbulent times of the early and mid-nineteenth century, had a radical edge. Under the labour input theory of value, profits and rent are conceptualised as deductions from the value of the product of labour - in other words labourers do not receive the full product of their work. In the mid-nineteenth century this provided the basis for a Ricardian socialism.

Economics had itself developed principally as a response to the rise of capitalism, and by the 1870s a mass labour movement and a widespread socialist challenge in Europe stimulated the emergence of an economic theory supporting bourgeois values and justifying bourgeois interests. The work of Jevons, Menger and Walras, independently but nearly simultaneously published in the early 1870s, drew upon the other strand of Smith's work, the labour commanded theory of value. The aim of their work was to justify the bourgeois order against the socialist offensive by claiming that this order was essentially classless, and further that this claim could be scientifically substantiated. Termed *neo*-classical, the theory rejected class in favour of the individual as the central analytical category of economics, and was expressed in mathematical terms to give it both the credibility and mystique of a science.

9 At this time economics was not viewed as a separate discipline as such in the neoclassical fashion but part of an integrated analysis of society and the economy.

10 See Smith, 1974; Ricardo, 1951.

In neoclassical economics, both the nature of the questions asked and the method of analysis are very different to the classical tradition. Fundamental to neoclassical economics is its preoccupation with relations in exchange rather than in production, with commodities deriving their value because they are wanted, or provide 'utility' to the consumer. The driving force of the economy is thus actions by individuals to satisfy their desires through consumption, rather through than the need to produce. Through this focus on exchange, the economy and society is conceived as atomised into a collection of rational individuals rather than classes, each owning initial (but unexplained) factor endowments (land, capital and labour). These are inputs to production, which is seen as a technical transformation of inputs into outputs (depicted in the production function Q=f(K,L)). Besides factors of production, individual agents are endowed with tastes or preferences, and have a motivation to maximise the utility, or satisfaction, which they derive through consumption. Similarly individual firms are motivated to maximise profits. All of this gives rise to supply and demand, which, when equalised in all markets by a set of prices simultaneously, give rise to a *general equilibrium*[11]. The task or question which neoclassical economics sets itself is to determine the conditions under which such an equilibrium will exist and what its nature will be. The emphasis on the steady state or equilibrium in neoclassical economics contrasts with the classical economists' concern with the laws of motion of capitalism. The emphasis on equilibrium and on individuals in exchange or consumption relations, rather than on class in production relations, is ideologically supportive of capitalism, and unsurprisingly the neoclassical approach has maintained a dominant position within economics ever since. However, the infancy of neoclassical economics meant that the extensive co-operative experiments of the nineteenth and early twentieth centuries were largely analysed from a classical perspective[12].

Socialism as pareto-optimality

Although by the turn of the century the western economies were firmly established as capitalist, there was a formidable socialist opposition in many countries in the early years of the twentieth century. The major political and economic event of this period was the 1917 socialist revolution in Russia, following which capitalist regimes came under severe pressure

11 Strictly speaking it is a Walrasian general equilibrium.

12 Marx's analysis receives more detailed attention in the next chapter.

in Germany, Finland, Austria, Italy and Hungary, although socialist revolutions in the latter countries were all defeated in the 1919-23 period[13].

The 1920s in the Soviet Union saw extensive debate around socialist economic development, in particular over the transition from war communism to the New Economic Policy, and how to reconcile the anti-feudal revolution of the peasantry with the anti-bourgeois, anti-capitalist revolution of the factory proletariat[14]. Although the more market-oriented NEP was controversially adopted under Lenin, by the end of the decade it had been abandoned in favour of Stalin's alternative of strong central planning and the creation of large units in both industry and agriculture.

In the 1930s neoclassical economists were constructing models of such a centrally-planned economy[15]. They attempted to use them - in what Bergson terms "the great theoretical debate on socialist rationality that was waged during the interwar period"[16] - to determine the conditions, if any, under which a planned socialist economy could match the (theoretical) efficiency of the capitalist economy. Efficiency, of course, is reaching an equilibrium which is Pareto-optimal[17]. In one fell swoop the neoclassicals had transformed the question of 'capitalism or socialism?' from class struggle to allocational efficiency, utility functions and consumer preferences. The irony of this exercise, carried out at a time (the 1920s and 1930s) when capitalism was being anything but efficient, seems to have been lost on the participants and their successors.

Following world war 2, western interest in the experiences of the socialist states was suppressed by the cold war, and economists were more concerned with their new-found role as the Keynesian saviours of affluent capitalism. But in Yugoslavia, on the fringes of both socialist eastern europe and the capitalist west, the policy of soviet-style central economic planning was rejected in 1948 in favour of 'self-managed socialism' - although "given the significance of this contribution, it is remarkable that the Yugoslav leaders thought it up in a hasty act of improvisation"[18].

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13 Mandel, 1987, p. 27.

14 Carr, 1952, chapter 18.

15 See e.g. Lange, 1938; Lerner, 1934; Dickinson, 1939; Lippincott, 1938; Durbin, 1936.

16 Bergson, 1967.

17 The Pareto optimum is a concept of allocative efficiency such that the equilibrium distribution of commodities cannot be altered to make any individual better off without making another individual worse off. This effectively grants any individual the right of veto over any redistribution; its inbuilt bias towards preserving the status quo is self-evident.

18 Russell, 1985, p. 38. He continues: "Following their quarrel with the Soviet Union in the late 1940s, the Yugoslavs were in urgent need of an ideological issue that could rationalise their defiance of Moscow. Milovan Djilas has published an

Under Yugoslav self-management, enterprises were to be run by workers' councils and allowed a degree of decentralised decision-making within a framework of some state planning and control[19]. Ward's 1958 article - entitled *The Firm in Illyria* - was inspired by the Yugoslav experience[20]. It referred to a somewhat idealised version of the Yugoslav economy, with much more extensive market relations than applied at that time. A similar stance was taken by Domar who, in *The Soviet Collective Farm as a Producer Co-operative*, placed the soviet *kolkhoz* in a market economy. It seems safe to assume that these articles contained a propagandist element in favour of a market rather than a planned economy. Since 1965 the degree of state involvement in Yugoslavia has been progressively reduced and market relationships extended, and the economy integrated into world capitalism by the removal of tariffs and import controls[21]. As a result Yugoslavia's economic problems in the late 1970s and 1980s resemble those of the capitalist west rather than those of the Soviet bloc.

The Ward-Vanek-Meade model

The framework originated by Ward, and developed most extensively in Jaroslav Vanek's seminal work *The General Theory of Labour-Managed Market Economies*, relates to a perfectly-competitive market economy, within which enterprises are owned and managed by worker-members. The Ward-Vanek-Meade (WVM) model applies the method of neoclassical theory of the firm to this labour-managed economy. All assumptions underlying the former are maintained, with the exception that the labour-managed firm maximises income per worker

illuminating account of how the idea of workers' self-management presented itself as the answer to this crisis. In The Unperfect Society he writes:

> *"The idea of self-management was conceived by Kardelj and me, with some help from our comrade Kidric. Soon after the outbreak with the quarrel with Stalin, in 1949, as far as I remember, I began to reread Marx's Capital to see if I could find the answer to the riddle of why, to put it in simplistic terms, Stalinism was bad and Yugoslavia was good. .... The country was in the stranglehold of the bureaucracy, and the party leaders were in the grip of rage and horror over the incorrigably arbitrary nature of the party machine they had set up and that kept them in power. One day - it must have been in the spring of 1950 - it occurred to me that we Yugoslav communists were now in a position to start creating Marx's free association of producers .... Tito .... knew nothing of the proposal .... until he was informed by Kardelj and me in the government lobby room during a session of the National Assembly. His first reaction was: our workers are not ready for that yet! But Kardelj and I .... pressed him hard, and he began to unbend as he paid more attention to our explanations. The most important part of our case was that this would be the beginning of democracy, something that socialism had not yet achieved; further, it could be plainly seen by the world and the international workers movement as a radical departure from Stalinism. Tito paced up and down, as though completely wrapped in his own thoughts. Suddenly he stopped and exclaimed: 'Factories belonging to the workers - something that has never yet been achieved!' .... A few months later, Tito explained the Workers' Self-Management Bill to the National Assembly" (Djilas 1969, p. 220-223).*

19 In particular the state retained control over the allocation of investment finance; capital remained 'socially-owned'.

20 Stephen, 1984, p. 4.

21 Estrin, 1983.

rather than profits. The methodology is firmly in the neoclassical tradition, in that its assumptions are essentially a set of premises necessary to generate a long-run Pareto-optimal allocation of resources[22]. Co-ops are assumed to operate in a market economy, and it is held that unregulated competitive markets lead to economically optimal outcomes.

Neoclassical economics emphasises property rights and the structure of penalties and rewards in motivating human beings towards the achievement of efficient solutions. Whilst standard theory relates to the appearances of capitalist society and is framed in terms of entrepreneurs owning capital and hiring labour, it is entirely compatible with labour management and ownership. In the neoclassical view of production as a technical process, where inputs of labour and capital are combined in a 'black box' to produce output, there is nothing which dictates that 'capital' (a technical rather than a social category) should not be owned by labour. Chiplin & Coyne argue that while

> .....the payment of residual rewards is vital to ensure the efficient operation of an enterprise, [there] is no theoretical necessity for this residual to rest with traditional shareholders or capitalists. There is no objection, in principle, to the employees in the enterprise becoming the 'capitalists', which is the essence of the worker-managed co-operative in market socialism, or market syndicalism[23].

In the same vein, Samuelson asserted that "in the competitive model it makes no difference whether capital hires labour or the other way round"[24].

Following the earlier work of Lange and his contemporaries, the W-V-M analysis compares the labour-managed model with the theoretical Pareto-optimality of the capitalist model. From this are derived the necessary conditions for the Pareto-optimality of the labour-managed equilibrium.

There has been a substantial amount of subsequent theoretical literature on the subject[25]. This has mostly been carried out within a partial equilibrium framework (following Vanek). More recently, and in line with the eclipse of partial equilibrium analysis within neoclassical theory, Dreze[26] has attempted to develop this work in a general equilibrium setting. The various neoclassical models are highly sensitive to the assumptions made, especially with

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22 *Stephen, 1984, p. 5.*
23 *Chiplin & Coyne, 1977, pp. 28-29.*
24 *Samuelson, 1957, p. 894.*
25 *For a review see Pryor, 1983.*
26 *Dreze, 1976.*

respect to particular institutional conditions, and most theoretical 'advance' has consisted of analysing the impact of varying these assumptions.

The neoclassical literature on co-operatives offers a mixed view on their prospects. Many theorists conclude that under certain circumstances co-operatives can be at least as efficient as capitalist firms, and in addition, that Pareto-optimal solutions will be associated with a more egalitarian distribution of income[27]. However, the conditions needed to ensure this are more rigid than those for capitalist firms. In a neoclassical version of the degeneration thesis, Vanek identifies several 'self-extinction' forces acting on co-ops, deriving from the structure of ownership and capital formation, but concludes that these problems can be avoided if the correct institutional conditions are in place. In addition, Vanek considers that extra labour productivity will result from the incentive effect of participation. Meade also concludes that a Pareto-optimum is attainable, but notes that conditions to ensure the free entry and exit of new enterprises - i.e. an absence of the 'barriers to entry' common in advanced capitalist economies - are especially important in a labour-managed economy. Miyazaki and Ben-ner[28] consider that co-ops will ultimately be transformed into capitalist firms through the incentive to hire wage labour, although again this can be restricted through correct institutional and legal conditions.

Possibly more serious objections are raised by Alchian and Demsetz[29]. They move beyond the neoclassical concept of a 'black box' and look inside the enterprise. They introduce the concept of production as a team effort, where the essence of the problem is the difficulty involved in assessing the performance of any one member. The output of a team results from joint effort and is greater than the sum of individual efforts, and to make the best use of inputs it is necessary to introduce a reward structure somehow related to effort. Alchian & Demsetz consider that the two key demands placed on an economic organisation are to monitor both the productivity of, and the rewards to, inputs. Because in a team any one individual does not bear the full cost of her/his actions, the incentive is created for 'shirking' behaviour (the 'free-rider' problem); if such shirking is to be controlled, a 'monitor' must exist who has sufficient incentive not to shirk her/himself. This incentive could be the right to 'residual rewards' or profit. Alchian & Demsetz consider that ownership of a capitalist

27 'Profits' would be distributed amongst a relatively larger number of workers than conventionally to capitalist shareholders. However, a co-operative economy of the W-V-M type might lead to a quite unequal distribution of income through 'wages'.

28 Miyazaki, 1984; Ben-ner, 1984.

29 Alchian & Demsetz, 1972.

firm meets these demands effectively. They add that for this reason capitalism is a superior form of economic organisation, as long as the 'property rights' of ownership are unfettered. For them, the hierarchy of a conventional firm is simply a set of mutually beneficial contractual relationships between capitalists and workers, and in many ways represents an extension of freely contracted exchange relationships in the market. Co-operative organisation is likely to be inefficient because of the lack of hierarchical supervision means that there is no effective monitor.

Some of the more optimistic predictions from self-management theory have also been countered by the Furubotn-Pejovich effect[30]. This is that workers will tend to under-invest from retained earnings if they do not retain an individual and marketable (rather than collective) share in productive assets. If workers cannot sell shares in their co-operative when they leave, they will tend to have a foreshortened time horizon as they will not benefit from the proceeds of investment after their departure; therefore they will tend to choose less than optimally efficient programme of investment, and co-operatives will be less efficient than capitalist firms. It is suggested then that co-ops will ultimately liquidate because of flaws such as workers being too short-sighted and failing to innovate; by distributing surpluses as current income, or simply that workers are basically lazy and will not work hard if the co-op is lacking discipline.

Other writers are concerned with the question of how the respective systems respond to risk, which is not dealt with in the W-V-M model. While the theory proves inconclusive on the respective abilities of the co-operative and capitalist systems to respond to risk, it is argued[31] that it is an unfair double burden on workers to bear the risks as well as do the work, and furthermore that their risks are not spread, like those of most shareholders. If their firm goes bankrupt, their jobs as well as their savings vanish at the same moment. Meade argues further that the capitalist system has as its essence the acceptance of risk to an asset in the expectation of a profitable return reward for taking the risk. He notes that

> while property owners can spread their risks by putting small bits of their property into a large number of concerns, a worker cannot easily put small bits of his effort into a large number of different jobs. This is presumably why we find risk-bearing capital hiring labour rather than risk-bearing labour hiring capital[32]

30 *This term was introduced by McCain, 1973; see Furubotn & Pejovich (eds.) 1974.*

31 *e.g. in Clayre 1981, chapter 1.*

32 *Meade, 1972, p. 426.*

Meade adds that as labour cannot spread its risks, co-operatives are most likely to be found in activities where risk is not too great.

Uses and problems of the neoclassical theory of self-management

The various neoclassical models have been used extensively as the basis for empirical work. Much of this relates to the experiences of Yugoslavia[33], and more recently on the experiences of workers co-operatives in Britain and Europe[34]. These models are a very dubious guide to co-operatives in real market situations, as others have noted[35].

One of the main questions addressed by Vanek, and by others since, concerned the financing of capital investment by co-operatives[36]. This has always been a prominent issue around co-operatives and self-management, and received attention in Vanek's paper *The Basic Theory of Financing of Participatory Firms*[37]. In this he compares the case of a co-op which raises its capital entirely through collective saving - either initial contributions or retained surplus which remain irrecuperable - with an 'ideal' capitalist company which is financed entirely by external interest-bearing debt. He concludes that under these circumstances a Pareto optimum will not be reached, and such co-ops will be inefficient; that is, they will under-invest, under-produce and under-employ compared to capitalist firms. Vanek considers that his arguments are

> so powerful in explaining the shortcomings of ... conventional forms of producer co-operatives ... that they offer an ample explanation of the comparative failure of these forms.[38]

Vanek's argument has carried much weight in the formulation of views concerning the nature of appropriate support structures for co-operatives. Vanek concludes that co-ops can avoid this inefficiency by resorting to external finance, i.e. by paying a price for capital which 'reflects its scarcity'. But because the conventional banking system is unlikely to satisfactorily fulfil the role of providing finance to co-ops, a secondary support structure is

33 *For a review and reference list see Stephen, 1976; also Estrin, 1982; Estrin & Bartlett, 1982.*

34 *e.g. Jones & Backus, 1977; Jones, 1974; Jones & Svejnar (eds.), 1982; Thomas & Logan (1982) use neoclassical theory, in part, in their analysis of Mondragon in Spain.*

35 *e.g. Ireland & Law, 1982; Stephen, 1982; Chiplin & Coyne, 1977.*

36 *See Vanek, 1971 or 1977; Defourny's 1982 survey article; or Stephen, 1984.*

37 *Vanek, 1971, 1975.*

38 *Vanek, 1975, p. 446.*

necessary to supervise (but not control) the capital market, amongst other functions[39]. If such financing is used, co-ops will be just as efficient as capitalist companies.

It is important to note that in Vanek's analysis, the effects of a hostile (capitalist) environment are dismissed as being able to explain "only a part, and perhaps only a small part of the difficulties of co-operatives"[40].

More recently, Stephen has demonstrated inconsistencies in Vanek's argument which, he claims, render it useless, and unable to explain the poor performance of co-operatives in the UK and western Europe[41]. Unlike Vanek, he claims that

> the source of the problem [for co-operatives] is more likely to have been a shortage of funds (for whatever reason) to finance expansion[42].

There are many problems encountered in applying neoclassical analysis to co-operatives in this way. Firstly it is an *equilibrium* analysis, which demonstrates a fundamental inconsistency. By definition, in equilibrium all markets must clear, but at the same time it is acknowledged that the capital market will not clear - financial institutions will be biased against lending to co-operatives even thought the latter are willing to pay market rates of interest. If markets cleared there would be no need for Vanek's support organisation (to supervise capital markets); it is important to note that Vanek does not envisage the support organisation providing loans to co-ops at concessionary prices - he merely sees it as aiding the provision of loans to co-ops at market rates, which will ensure the efficient allocation of capital resources - a clear admission that the capital market is not in equilibrium.

The second major difficulty is that neoclassical analysis comes to a halt in attempting to explain the problems of a hostile and prejudiced environment. It is therefore no surprise that Vanek dismisses it as unimportant. In his view poor performance is a result of incorrect decisions taken *internally* within the co-operative, and while Stephen rejects this, he is still unable to use neoclassical analysis to explain why co-operatives suffer a shortage of capital. In a crucial respect it fails as an explanatory theory. As with all neoclassical economics, once the initial assumptions are made, the outcome or solution is determined - all the analysis can do is work out what that solution is, say, concerning levels of prices, output quantities and

39 *ibid.* p. 35.
40 *ibid.* p. 453.
41 *Stephen, 1984.*
42 *ibid.* p. 96.

factor incomes, and whether or not it meets one particular definition of 'efficiency'. The important aspects of the situation facing co-operatives are left unexplained because they are outside of the theory. Furthermore, neoclassical theory is inherently incapable of addressing these important issues; an analysis posited in terms of relationships between individuals necessarily fails to take into account the importance of wider social relationships and the specifically capitalist environment within which co-operatives operate.

In practice the vast bulk of literature on co-operatives from a neoclassical perspective relates to a continuous refining of different models, debating their properties rather than explaining economic reality.[43]

Despite the ideological role of neoclassical theory in underpinning bourgeois interests and values, its use is not restricted to those on the right. Indeed, Vanek and other market socialists often have the most laudable of intentions, but fail to challenge economic orthodoxy. For example Stewart uses a neoclassical model to analyse *Worker Co-operatives and the Alternative Economic Strategy,* treating the question largely as one of the relative technical efficiency of capitalist and co-operative firms[44]. A similar approach is taken by many economists in the USA, and in Yugoslavia, who consider themselves to be politically radical. It really is rather curious that proponents of self-management rely extensively on neoclassical theory, since above all co-ops' origins lie in attempts to improve the position of workers as producers, not as consumers.

Although it is widely used, the neoclassical framework has been rejected for this thesis. The reasons for this are located in a general criticism of neoclassical economic theory rather than the specific way in which it is applied to the analysis of co-operatives. Although I do have particular criticisms of the neoclassical analysis of co-operatives, these are derived from the general criticisms, and as such are not resolvable within a neoclassical framework.

Critiques of neoclassical economics

Neoclassical economics has been subjected to many extensive critiques[45], but still retains a strong hold, particularly amongst academic economists. Despite extensive mathematical reformulations it differs little in its fundamentals from what Marx contemptuously described

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43 *see e.g. Pryor, 1983; Stephen, 1984; Jones & Svejnar, 1982.*

44 *Stewart, 1983.*

45 *For a full critique of neoclassical economic theory see Fine, 1980 and 1982; Rowthorn, 1980; or Cole, Cameron & Edwards, 1983.*

as 'vulgar economy'. Hodgson considers that "the neoclassical model of the market system is sophisticated, elegant, seductive and formally precise. But is wrong"[46]. I would argue that it is not so much wrong as misleading, represents bourgeois interests, and is inadequate for any real understanding of the economy.

In a classic article, Bob Rowthorn criticises vulgar economy on three main grounds: its *subjective individualism; naturalism;* and the primacy afforded to *exchange*[47]. The first characteristic is that

> society is seen as a collection of individuals whose nature is, for analytical purposes, assumed to be given or predetermined, quite independently of the social phenomena under consideration .... society is explained in terms of the individual instead of the individual in terms of society[48]

Secondly, naturalism refers to the treatment of production, like the individual, as asocial.

> Instead of seeing production as a social process in which human beings combine together within a specific framework of social relations, vulgar economy sees production as an asocial or natural process in which inputs of land, labour and means of production .... are mysteriously transformed into outputs of material and non-material goods[49].

Thirdly, the primacy given to exchange and market phenomena us hardly surprising given that society is seen as an agglomeration of individuals whose nature is fixed, do not combine together in a social production process and whose only link with each other is through the buying and selling of commodities.

'Vulgar economy', then, is a timeless and ahistorical analysis, and pays no attention to the social relations which characterise a particular economy at a particular time. As a result one of the standard claims of neoclassical theorists is that their analysis can be applied to *any* economic system and is not restricted to capitalism; hence its application, by Lange and others cited earlier, to socialist economies, and by Vanek to the labour-managed market economy.

This can only be achieved on the basis of the characteristics identified by Rowthorn, by isolating the analysis of economic phenomena from the society in which they are embedded. If the basis of the analysis is individual, rational choice, then it appears to have a universality

46 *Hodgson, 1985, p. 4.*
47 *Rowthorn, 1980.*
48 *ibid. pp. 14-15.*
49 *ibid. p. 15.*

which can be applied to any society made up of rational individuals. This contrasts with the approach of the classical economists, who were concerned with the study of the economy *within* society. Neoclassical economics achieves this by looking only at the *appearances* of an economy; all societies appear to be constituted of individuals, even if the fundamental categories are classes. This corresponds with the apparent organisation of capitalism itself, as if the economy could be understood in isolation from the political, legal and other necessary conditions for its existence.

My concern here is with explaining appearances, not by analysing the appearances themselves but the underlying structural factors, and most importantly the *social* relations which characterise the development of an economy. Neoclassical economics is limited to a consideration of the appearances which are merely symptoms of those underlying causes. While neoclassical economists see this generality as a strength of their analysis, it is also a fundamental weakness because it lacks any concept of a mode of production, which provides the basis of distinguishing one society from another.

It is the mode of production and associated social relations which fundamentally determine the characteristics of any economy, and these social relations are distinctly different in capitalism, as opposed to feudalism, slavery, or socialism. Because of its starting point, neoclassical theory fails to offer any explanation of the operation of the capitalist economy beyond a trivial level. It similarly and necessarily fails to explain other economic systems as well. Rowthorn notes that

> the conceptual framework and starting point of neoclassical economics renders virtually impossible a scientific analysis of the capitalist *or any other* mode of production[50] (emphasis added).

As an example, neoclassical economics gives primacy to consumption by individuals endowed with initial wealth and tastes, but pays no attention at all to the process by which wealth and tastes are created, other than explaining the former as the result of past consumption and investment decisions. Given that these are assumed to direct the operation of the market (and hence the economy), and that wealth is the source of economic power, this seems remarkable. Enoch Powell once observed that consumers' spending activities are "votes in the economic ballot box", but clearly some consumers have more votes than others. An analysis of how this comes about would seem to be a minimal requirement for

50 Ibid. p. 16.

understanding the economy. Ironically, not only does neoclassical economics fail in its objective of explaining of any economic system, it becomes an ideological apology for capitalism ("a moral justification of the existing order"[51]). Ironically, maintenance of an individualist standpoint - which cannot penetrate appearances to the reality of exploitation - is in itself a class standpoint, of the bourgeois or capitalist class.

This is not to say that neoclassical economics is always totally useless or wrong. The economic categories of demand and supply, prices, wages, profit, interest etc., do exist, and are the visible relations of society; they may have a certain usefulness in analysing individual decisions. For certain purposes it may be sufficient to have an idea of how variables appear to move, and demand and supply may be sufficient for this. However, these categories do not scientific, in that they do not theorise the essential logic of capitalism, and cannot deal with its underlying dynamic. Thus when the workings of the capitalist economy produce crises, neoclassical theory has to attribute them to exogenous shocks of one kind or another[52].

Vanek revisited

In the light of the above, we can reconsider neoclassical analyses of co-operatives and arguments in their favour, and immediately and inconsistency is revealed. All neoclassical theorising regarding co-operatives is concerned with establishing the conditions under which the co-operative market economy will be as efficient as the perfectly functioning capitalist economy. But this begs the question of why should such a co-operative economy be considered in the first place. As Stephen points out, Vanek

> merely prescribes the behaviour and institutions necessary to achieve an efficient allocation of resources *given* a collectivised form of industrial ownership[53] (emphasis added).

Vanek's analysis lacks any idea of the economy as an unfolding process, and does not give any 'economic' arguments as to *how* or *why* such collective ownership may come about. If it is only capable of *equalling* the efficiency of the capitalist economy (the ideal), and then only under certain conditions, why is it better? To answer this, neoclassical theorists must move outside the realm of their economics and 'objectivity' and resort to value judgements; Vanek,

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51 Ibid., p. 16.
52 Mohun, 1979, p. 244.
53 Stephen, 1984, p. 6.

for example, claims that co-operatives are "appealing and desirable on moral and philosophical grounds .... [with] .... an absence of alienation, and a no-conflict atmosphere at work"[54]. Although these advantages are cited, no further explanations, analysis or justification is given[55].

One reason is that the theory has no means of incorporating relationships *within* the enterprise into the analysis. Neoclassical theory of the firm is about costs and markets, and not about the firm at all[56]; the firm is merely a locus of technical combinations of factors of production to produce output, selected by a process of cost-minimisation, not a social process involving people.

Not only are problems encountered in explaining why a co-operative economy is preferable, but there are corresponding difficulties with explaining why there are very few co-ops in a capitalist economy. Although Vanek relies upon arguments concerning the impact of financing arrangements, these are ultimately chosen by the workers involved. Whether or not co-ops exist therefore results from workers preference schedules, which are of course unexplained by the theory. Then we are presented with another paradox. Co-ops are superior, as Vanek has explained above, but the reason for the lack of co-ops under capitalism is because workers prefer working in capitalist firms!

> If capitalist forms are overwhelmingly favoured, as the historical evidence shows, this reveals something about the preference structure of the population as a whole. Either the bulk of the population actively wish to avoid the risks and anxieties of capital ownership, and so willingly transfer these responsibilities to the few willing to bear them; or the efficiency of the capitalist firm is such that it can pay wages high enough to compensate the work force for the loss of autonomy in comparison with the co-operative alternative[57].

At the end of his extensive survey of neoclassical writing on co-operatives, Pryor also laments the lack of economic analysis of the process of co-operative formation, noting that

> the vast modeling literature appears silent as to the general reasons why co-operatives are founded; and I have been unable to find in any literature any

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54 Vanek, 1975, pp. 445-6.

55 Vanek himself now seems to have largely abandoned the neoclassical approach, although there remain many enthusiastic followers of his previous work:

> *to judge and evaluate a new [self-managed] system from the vantage point of the old capitalist paradigm and to be in some sense objective is exceedingly difficult if not impossible .... yet most of the literature we have on the subject of self-management looks at the subject matter from within the capitalist system of thought (1982, p. 315).*

56 Machlup, 1967; Tomlinson, 1984.

57 Miller, 1981, p. 309.

> serious and extended attempts to find and test propositions on the social, political and economic forces underlying the formation of such co-operatives.[58]

This is perhaps less true now; the upsurge in co-op activity has promoted analysis of the 'entrepreneurship problem' for co-operatives, and the work of Alchian & Demsetz is highly relevant. However, it is hampered by "a more general problem, in that orthodox economic theory lacks any general explanation of the structure of firms[59]". Much of the analysis has been from outside the orthodox neoclassical perspective, moving towards an eclectic or behavioural approach[60].

Further inconsistencies are apparent. For instance, there is no explanation of the existence of alienation or conflict in capitalist firms, although this would appear to be a central part of the pro- co-operative position. Labour should be content with its reward; all agents are fully compensated for their marginal contribution to production, as at equilibrium the wage equals the value of the workers' marginal product. The distinction between workers and capitalists becomes one of different skills and choices, and if capitalists are better off than their employees it is because "those with managerial skills are assigned through the market to their appropriate place and are rewarded for their scarce resources accordingly"[61]. The possession of skills is considered to be the result of decisions taken regarding education and training in accordance with an individual's own preferences. In this case, why should there be any conflict between workers and bosses if all are suitably rewarded for their contribution to production, which is itself the result of conscious individual decisions.

Alienation can only be justified in terms of Alchian and Demsetz's[62] assertion of a tendency to 'shirk', itself a result of supposedly fixed human nature. But if this tendency to shirk is located within specifically capitalist relations of production - where workers are exploited in the extraction of surplus value by capitalists - then this characteristic of human nature becomes a characteristic specific to capitalism rather than a timeless one, i.e. it is the nature of capitalist production which causes alienation, not human nature.

The neoclassical analysis of co-operatives and self-management essentially follows the methodology of orthodox neoclassical economics, and suffers from all of its problems.

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58 Pryor, 1983, p. 137.

59 Putterman, 1984.

60 Cornforth, 1988; Abell, 1983, Ben-ner, 1985. See also later in this chapter.

61 Fine, 1980, p. 5.

62 Alchian and Demsetz, 1972.

Orthodox theory fails to offer a meaningful analysis of capitalism because it is ahistorical and ignores the social relations and features which are specific to that system, and which characterise it. Nevertheless this feature is seen by its proponents as a strength, and has enabled the development of a neoclassical theory of self-management. It tries to explain co-ops without reference to the specific character of capitalism and yet justifies them in terms of its (unexplained) failures. The inconsistency of neoclassical analysis is that it can only justify co-operatives on the basis of features specific to capitalism, but claims to be able to analyse them without reference to these specific features.

This has led to a muddled confusion between the analysis of a co-operative economy (market socialism) and co-operatives within capitalism; the two are treated as conceptually equal and the essential features of each are lost. Ultimately neoclassical theory can't *explain* anything about co-operatives - questioning the important causal influences is outside of the theory.

This thesis is not concerned with the character of a co-operative or market socialist economy (such as Yugoslavia), but with co-operatives in a capitalist system. In neoclassical theory the role of co-ops is seen purely in competitive or commercial terms, the objective being to compete in the market for maximum efficiency in production, whilst the benefits (to be maximised) are material rewards. The role of co-ops as self-contained competitive enterprises in a capitalist market economy - as in the neoclassical vision - will be taken up again in the conclusion, but the pressure on co-ops to behave in this way is related there to the specific features of capitalism, not an idealised neutral environment.

BEHAVIOURAL THEORY AND SOCIAL DEMOCRACY

I now turn to what may be termed a 'social democratic' approach to political economy[63], and more specifically the associated behavioural analysis of the theory of the firm. From this an approach to co-operatives is derived which concentrates on the internal organisational influences on performance and a distributional reform of capitalism; an approach which is epitomised in Robert Oakeshott's book *The Case for Workers Co-ops*. Despite changes in ownership relations within the enterprise there is no fundamental challenge to capitalist class relations in the economy as a whole.

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63 Cole, Cameron and Edwards, 1983, use the term 'cost of production' theory in their survey of schools of economic thought.

Social democratic economics - Sraffa

Following 1945 there were major changes taking place within the advanced capitalist economies and within economics itself. As capitalism developed, the industrial scene became increasingly dominated by large corporations and multinational companies rather small scale and highly competitive firms[64]. Traditional neoclassical models of the theory of the firm had dealt with the appearances of capitalism in the late 19th century; they assumed perfect competition, where individual firms could not influence market prices. As firms grew larger, the pretence that these models could give some guide to the real world became harder and harder to sustain.

Orthodox economic theory had also taken a battering during the pre-war period. High and persistent levels of unemployment gave lie to one of main tenets of neoclassical theory - that the market system could, unaided, ensure an efficient, equitable and relatively stable equilibrium in the economy. Keynes' attack on this approach in *The General Theory,* published in 1936, claimed that aggregate levels of economic activity would not respond in the way that orthodox micro-level analysis suggested. His analysis justified a whole new role for government intervention in the economy, particularly in the manipulation of aggregate demand to achieve full employment, and formed the basis for macro-economic policy in the period following 1945. This conflicted with the orthodox *laissez-faire* approach towards government activity. Furthermore, the neoclassical counter-attack on Keynes stimulated the Cambridge Capital Controversy[65], which seriously undermined the theoretical coherence and validity of neoclassical partial equilibrium models, including conventional theories of the firm. The integrity of the theory could only be maintained by resorting to the general equilibrium model, which was theoretically sound (in neoclassical terms at least) but demanded even stricter and more unrealistic assumptions for a stable solution.

Cambridge (UK) continued to provide a critique of orthodox neoclassical theory, centered on the work of Sraffa[66]. Sraffa's work has been controversial and interpreted in a variety of

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64 i.e. moving from 'Modern Industry' to 'Monopoly Capitalism'

65 So called because it involved the universities of Cambridge (UK) and MIT at Cambridge (USA). See Harcourt, 1972.

66 Although Sraffa's magnum opus, The Production of Commodities by Means of Commodities, was not published until 1960, he had been working on it for forty years and his ideas had been influential during that period.

different ways[67], but one important element was a renewed emphasis on the sphere of production rather than exchange, in particular as the location of important economic decisions. Sraffa also showed the conditions under which distribution (between profits and wages) follows no particular natural laws. Orthodox theory, in contrast, held the rate of profit to be determined by the marginal productivity of capital, and wages by the marginal productivity of labour. Crucial to Sraffa's analysis is the proposition that equilibrium prices of production, to which the economy would tend, could always be found when physical input-output coefficients (i.e. available technology) and distribution (between wages and profits) are known. The state of technology is therefore crucial for economic equilibrium, and it is technological change which permits economic growth. On a general level, Sraffa took the view that the national pattern of distribution had very little to do with the requirements of production; thus the question of distribution was allocated to the moral and political spheres and away from the economic. This does permit a role for class struggle - the working class can attempt to shift the wage-profit distribution in their favour. More generally the Sraffian schema provides an economic basis for competition between various groups over the distribution of economic surplus. While in theory the outcome of this distributional struggle is independent of production itself, the competitive process can potentially disrupt production. These crucial elements of Sraffa's work underlie (usually unconsciously) much recent work on the theory of the firm. In the next sections I move on to look at a behavioural model of decision-making in the production units of advanced industrial society, a model which is highly consistent with Sraffa's analysis at the aggregate level of the whole economy[68].

Behavioural conceptions of the enterprise

The neoclassical concept of the firm is a 'black box' which exists to allocate resources, and as a result theory has little to say about the production process and social relationships within the firm; the primary focus is upon external (exchange) relationships between firms, and not internal relationships within the firm itself. This concept relates to perfect competition, with large numbers of small identical firms. In the era of the giant corporation and monopoly

67 Sraffian economics has been viewed as a special case of neoclassical general equilibrium theory (Hahn, 1982); as a reconstruction of neoclassical theory (Fine, 1980; Rowthorn, 1980); and as finally providing the solution to Marx's transformation problem (Steedman, 1977; Hodgson, 1982).

68 Cole, Cameron & Edwards, 1983, p. 159.

capitalism the neoclassical neglect of the internal structure of the firm became increasingly untenable. Cyert and Hendrick observed that

> none of the problems of real firms can find a home within this special construct. There are no organisational problems, nor is there any room for analyses of the internal decision-making process[69].

The large corporations which concern Cyert & Hendrick are characterised by a division of ownership and control between shareholders and management. The former have formal ownership but take little active role in the running of the corporation due to their dispersed numbers and lack information. Management is usually organised into a strict hierarchy, carrying out specialist functions, whilst the workforce is typically organised into one or more trade unions.

Co-operative theorists have shared similar concerns about the behavioural foundations of neoclassical theory[70]. The emphasis on individual maximising behaviour and the need for hierarchy and supervision, as argued by Alchian & Demsetz[71], contrasts with the importance of trust and commitment in any functioning economic organisation[72]. It is argued that self-managed enterprises may well gain from the latter in terms of economic performance. Secondly, the benefits of working co-operatively (e.g. 'job satisfaction') are real but cannot be adequately summed up by commercial criteria, and hence tend to be neglected if they cannot be quantified. Thirdly, the dynamics of co-operatives cannot be explained solely by individual actions, but need to take account of collective activity[73]. Jan Vanek (not to be confused with Jaroslav Vanek) has argued that workers' co-operatives, in Yugoslavia at least, have a variety of goals and the mix cannot be easily specified in advance[74]. Therefore, any modelling of co-op behaviour through the use of an objective function representing whatever is to be maximised is oversimplistic and useless.

For behaviouralists the question of who runs the corporation (or co-operative), and with what ends in view is very complicated, because of these various power groups. It has been explored by Galbraith[75] and by Baran and Sweezy[76], who in Monopoly Capital start with a

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69 Cyert & Hendrick, 1972, p. 398.
70 e.g. Clayre, 1980, p. 5.
71 op.cit.
72 Fox, 1974.
73 Lichenstein, 1986
74 Jan Vanek, 1972.
75 Galbraith, 1967.
76 Baran & Sweezy, 1966.

model of the economy which has strong analytical connections with Sraffa's. In general such studies are an analysis of power within the firm, which is perceived are a coalition of groups with conflicting interests (reflecting the structure of society as a whole), bargaining over the distribution of the firms' surplus - i.e. the surplus of revenue over the prime cost of production. At the level of the enterprise, poor performance may be due to managers' role in frittering away the surplus on items of personal aggrandisement. Alternatively, it may be due to distributional conflict between groups in the corporation - resulting in strikes, lock-outs and other disruptions to production which reduce output below its potential level. Trade unions are often seen as the villains of the piece; they have developed as defensive organisations for the employed and have an interest in resisting technical change, both because jobs are at risk directly, and as an indirect means to secure a stronger position in the distributional power struggle. But technical change determines the potential for economic growth, and hence resistance is against society's long term interests. Also, the general struggle over the level of wages is conducted by trade unions on the basis of potentially or actually disrupting production, and as a result, trade union activity is predominantly damaging and not in anybody's long term interests. Unions are often characterised as narrow and short-sighted, and in the longer term working against the interests of both their members and society in general. In fighting over the division of the production 'cake', all that is achieved by such disruptive activity is a reduction in the size of that cake, both in the short and long term. The resulting combination of low productivity and poor industrial relations is often termed the 'British Disease'[77].

Social democracy and industrial relations

From a social democratic perspective poor industrial relations are primarily the result of ignorance and prejudice, and a failure to appreciate where long term common interests lie. The problem is perceived to be particularly severe in Britain because of a long-standing class-consciousness and class divisions - although class is seen as rooted in culture and consciousness rather than in material circumstances. David Owen claims that "adversary politics continue to fan the embers of class divisions"[78] (rather than the other way round!). This leads to irrational distributional struggles between groups within industry - management and unions, or between different trade unions for increased power and influence. Overcoming such problems is essential for economic growth and recovery, but in

77 *Oakeshott, 1978, p. 11.*

78 *Owen, 1981, p. 3.*

achieving this one cannot ignore the existence of these disparate interest groups. The solution proposed by social democrats has two elements. The first parallels (their) desired reforms in the political sphere; thus demands for proportional representation in elections are matched by a need to ensure effective representation of interest groups in decision-making in industry. In conventional companies, decision-making is in the hands of a limited group of managers or owners, and the exclusion of the majority of the workforce from decision-making is viewed as forcing the workers into support for trade unions, with negative long term consequences. Proper representation of workforce interests - access to decision-making through a participatory industrial and organisational structure - will enable these to be articulated and taken account of and avoid much unnecessary conflict. The second aspect is an attempt to 'blur ' the competing distributional categories - for instance by giving workers the opportunity to share in the ownership or profits of the firm.

The benefits of effective participation by workers in management are generally seen in terms of increased efficiency as a result of reduced conflict. The following quote from Martin Lockett illustrates this well. Although he refers specifically to workers' co-operatives, the argument applies equally to any form of democratic industrial participation and/or profit-sharing:

> the exclusion of the majority of the workforce from ownership and control is seen by most advocates of co-operation to be a structural factor which leads to: (i) lack of motivation on the part of the workforce (ii) lower efficiency and productivity (iii) conflict between employer and workers due to their different interests and (iv) a consciousness of the inequality of such a situation amongst the workforce and consequent loss of legitimacy by management. Thus it is widely argued that the structure of capitalist forms of ownership and control tends to restrict production to a level below that which is theoretically possible and to lead to potentially avoidable social conflicts.......... the problem is how to remedy the shortcomings of capitalist organisations which do not perform as efficiently as they could due to lack of commitment of the workforce to an enterprise. This is reflected in a loss of managerial legitimacy and support for trade union organisation and action[79].

The argument that increased worker participation will increase efficiency and counter economic decline was well put in the Bullock report. The way

> to provide greater satisfaction in the workplace and to assist in raising the level of productivity and efficiency - and with it the living standards of the nation - is not by recrimination or exhortation but by putting the relationship between capital and labour on to a new basis which will involve not just management

79 Lockett, 1981.

> but the whole workforce in sharing responsibility for the success and profitability of the enterprise[80]

For social democrats, therefore, the antagonism between capital and labour can be ameliorated or overcome by a combination of incentive and organisational changes.

This approach contrasts completely with that of the 'property rights' theorists mentioned earlier. For them, the right to participation in control derives directly from ownership, whereas a typical social democratic perspective is as follows:

> workers' participation is based on fundamental concepts of justice ..... the ordinary worker invests his labour and ties his fate to his place of work. For this reason he has a legitimate claim to have a share in influencing various aspects of economic policy.[81]

Chiplin & Coyne[82] dismiss the findings of the Bullock Report because it gives workers a say in crucial decisions without having to take responsibility - in terms of the resulting profit or loss - for the outcomes of those decisions. For them, a major cause of the 'British Disease' is that the attenuation of property rights has already gone too far, and Bullock-type suggestions would worsen, rather than improve, the performance of British industry.

Co-operatives and the 'Third Sector'

While this argument can be applied to any enterprise under capitalism (or socialism for that matter - as Oakeshott's book repeatedly attempts to do), it is particularly applicable to support for workers co-operatives, where democratic participation is integral to the structure of the enterprise, on a formal level at least. It is used to justify the development of a 'third sector' of the British economy; a self-managed / co-operative sector to complement the state-run (nationalised) and private sectors. In this, workers co-operatives can potentially play an important role. The status of workers as owners and the entitlement of workers to a share in the profits should engender further commonality of interest. Their democratic form offers the possibility of dialogue and representation of all interests within the enterprise, but - despite an easing of the conventional capitalist-worker division - there may be new and different conflicts and problems in co-ops. Much attention is therefore paid to developing suitable organisational and participatory structures to deal with these new conflicts and

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80 Bullock, 1977.

81 Leif Aune, Norwegian Minister of Labour, making an opening statement to the ILO symposium on Workers' Participation, Oslo 20-30 August 1974 (ILO, 1974).

82 Chiplin & Coyne, 1977.

demands, particularly in larger co-operatives where direct participation becomes unworkable.

Co-ops are seen as potentially more efficient than capitalist firms. It is usually argued along the lines that: firstly, workers have a greater motivation to work harder, as they are working for themselves rather than an employer and can reap the rewards of their own efforts; secondly, less effort should be wasted in unnecessary conflict and more devoted to productivity as the co-op members are the final arbiters of management decisions; thirdly, workers should be less alienated and therefore able to work harder. On the negative side, productivity may be lost because of the effort involved in developing the new participatory structures, and simply because of the time taken to operate them[83].

Co-operatives are often also seen as morally superior to capitalist enterprise, besides being more efficient. There is a strong Christian socialist tradition amongst supporters of co-operatives, including advocates such as E.V.Neale in the 19th century and Ernest Bader, founder of the Scott Bader co-operative, more recently, and has been a strong influence in the main collective organisation amongst British co-operatives, the Industrial Common Ownership Movement (ICOM). They believed that the division between capitalist and worker is both immoral and counter-productive; co-operatives are seen as superior because they do not have this division and its attendant conflicts. In recent times the Christian socialist element in the co-op movement has been taken over by "the essentially middle-class tradition of progressive if paternalistic business management, fertilised to a greater or lesser extent by Quaker business radicalism"[84]. An earlier example was the establishment of the John Lewis Partnership in the 1920s[85].

The combination of making workers into owners and reducing conflict, with the introduction of appropriate organisational structures to resolve whatever divergent interests remain, is thus perceived as beneficial for both workers and society as a whole. There are two other essential elements of the social democratic analysis. Firstly, discipline and efficiency is maintained by management, through the adoption of a conventional management structure. Secondly, the market provides an external reference point for all enterprises and represents an efficient way of co-ordinating the economy.

83 This was central to the CBI's objections to the Bullock report (CBI, 1976).
84 Oakeshott, 1978, p. 74.
85 Bradley & Estrin, 1987.

Therefore, despite a concern with the internal structure of the enterprise, many aspects of work would remain unchanged even though there is a formal transfer of power within co-operatives. This stems from a belief in the necessity of conventional hierarchical structures. Oakeshott "most strongly" argues that "the functional distinction between management and the shopfloor will ... have to be maintained"[86] and that "if anything ... the management required in an enterprise ultimately controlled by its workers must be particularly strong ... and certainly ... it must be more like than unlike management in a conventional firm"[87], although it may need to adapt its style. An ahistorical view of the role of management is typical of social democratic thinking - it is viewed as a technical function rather than an embodiment of social relations, or representing class interests - but at least Bradley justifies management hierarchy in terms of the relationship of co-operatives to a market economy[88]. Bradley essentially argues that "a firm's profitability is crucially bound up with the question of information", that competitive market forces require that certain information remains confidential to management (or else competitors will benefit). The market therefore influences information control structures within the firm and requires a necessary separation between management and workers. This does not mean that management cannot be ultimately responsible to workers, but that a hierarchical management structure is determined by the requirements of the market and is thus imposed on co-operatives as much as capitalist firms. Bradley concludes that worker control as a radical strategy, focusing "on employee access to company information and the eradication of distinct 'closed' managerial groups [is] not feasible"[89]. Bradley's argument is highly relevant to the discussion of co-operative 'degeneration' into capitalist forms of enterprise under the pressures of market competition.

A Reconstruction of neoclassicism?

Sraffa's work was welcomed by many as a radical alternative to orthodox neoclassical theory[90], and indeed this was Sraffa's own interpretation[91]. On certain crucial aspects however there are strong similarities between the two. In particular both Sraffian and neoclassical theory are ahistorical; there is no acceptance of the concept of a 'mode of

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86 Oakeshott, 1978, p. 6.

87 Ibid. p. 25-26.

88 Bradley, 1980.

89 Ibid. p. 155.

90 Hodgson, 1982; Steedman, 1977.

91 His epic was subtitled Prelude to a Critique of Economic Theory.

production', the set of social relationships within which economic activity (first of all production) takes place. Consequently there is no role for capitalism as a distinct mode of production.

This is linked to the typical bourgeois conception of the economy as an object or thing rather than a process. The impact of ahistoricism is that there is no concept of historical process and its relationship to the present. This imposes limits on the theory's ability to conceptualise some of the central categories of economic analysis and the theory of the firm and of co-operatives: class, the labour process, technology, management and ownership. Although Sraffian theory sees these in a different perspective to that of neoclassical economics, it is still unrelated to the capitalist mode of production. For example, Sraffian economics is often couched in terms of a distributional class conflict between capital and labour, the existence of this conflict is exogenous to the analysis, not explained within it. The same criticism applies equally to other conflicts; divisions within the enterprise remain unexplained. Therefore class conflict is not integral to Sraffian economics, it could just as well be religious or geographical conflict. Where class is explicitly included it is a different conception of class to that of Marx - Sraffa's classes are merely descriptive rather than analytical categories.

Sraffa drew upon the earlier work of Ricardo[92] but the two analyses differ in important ways. Ricardo was concerned with reconciling the coexistence of capital and labour with the latter as the sole source of value. In contrast the Sraffian system "rejects value theory altogether, arguing that the characterisation of capitalism and its economic laws of motion is possible and indeed more satisfactorily accomplished without the encumbrance of a value theory based on labour time"[93].

Although there is more consideration of production than in the neoclassical 'black box' approach, both share the view of production as a technical rather than a social process, and Rowthorn's earlier criticisms apply equally. Technology and technical change are exogenous - analogous to the exogenous production function in neoclassical theory. This is a particularly serious problem because it is technical change which is considered to provide the way forward for society, providing increased surplus, and yet the availability and choice of technology in production is unexplained. The division of labour is technically rather than

92 *One of the reasons why* Production of Commodities *took so long to produce is that Sraffa was also editing Ricardo's complete works.*

93 *Fine, 1980, p. 134.*

socially determined, and in most behaviouralist work little attention is paid to the labour process. It is unsurprising therefore that Oakeshott (amongst others) treats hierarchical organisation in co-operatives as technically determined, and therefore somehow 'objective' or necessary, rather than socially determined and therefore changeable. This reflects an uncritical acceptance of the existence and role of the market.

Indeed there is great similarity in the role of the market in behavioural and neoclassical theories. In both the existence of the market is unexplained, whether in a capitalist or market socialist economy - in contrast to marxist theory. Frequently a market economy is perceived as superior to a planned economy for technical reasons (it is better able to co-ordinate information and decisions) and moral/social reasons (a market is more democratic). The role of the market will receive more attention later, but there is a widespread tendency to view the market as a neutral distributive and allocative mechanism. However, the market needs to be seen in its historical context; it emerged with capitalism as the dominant form of exchange and plays a central role in the accumulation process. Following this widespread and uncritical acceptance of the market, many arguing that planning is too restrictive, and incompatible with co-operatives' autonomy, but in reality the market imposes pressures which are just as constraining for co-ops, if not more so. This preoccupation with the appearances of capitalism, with apparently 'free' exchange in the market (a 'religious doctrine'), is a characteristic of bourgeois economic theories.

This uncritical acceptance of the existence of the market leads to a failure to examine the impact of market relations on the various possible objectives of firms or co-operatives, and the constraints which this imposes, or certainly any negative constraints. There does not appear to be a recognition that there may be conflicts between operating in the market and co-operative objectives; indeed, the market is often seen as a welcome and positive constraint. Oakeshott hopes that "making the workforce the owners of profits as well as wages, and by assigning to it ultimate responsibility and control, we will induce positive feelings about at least a partial and modified market system amongst larger numbers of working people"[97]

94 Oakeshott, 1978, p. 44.
95 Vanek, 1975; Hodgson, 1984.
96 Fine, 1984, p. 25.
97 Oakeshott, 1978, p. 7.

The counterpart to the lack of critical attention paid to market relations is that studies of co-operatives tend to focus on internal co-operative problems rather than the conditions that they face outside. Actions are seen as determined in a 'voluntaristic' manner, that is, social processes are reducible to the apparently unconstrained will of individuals. Although internal processes are important, they cannot be analysed in the absence of external conditions; they need to be viewed in the context of class relations. This leads to particular problems in analysing why co-ops have performed in the way that they have, as a crucial aspect of explanation is missing. A consequence has been the frequent assumption that the experience of co-operatives elsewhere might easily be transferred to Britain. The problem is illustrated in Oakeshott's enthusiasm for the Mondragon group of co-operatives in the Basque country of Spain[98]. In his view the Mondragon experience can potentially be replicated (e.g. in Wales[99]) as long as the correct internal characteristics are carried over - such as individual (rather than collective) capital contributions, and "fully professional management", are stipulated. This position has been thoroughly criticised by Fairclough who shows the overwhelming importance of external conditions in the success of Mondragon and hence in the potential extent of reproduction of this phenomenon[100].

As a framework for carrying out research into co-operatives, behavioural theory offers great scope for description but little scope for analysis and explanation[101]. Objectives can be framed with little regard for external social relations, and thus the main item of interest about the co-operative is the internal processes by which decisions are reached and overall behaviour derived. Little or no attention is paid to the origins of the particular decisions which have to be made, which invariably represent a conflict between some co-operative ideals and what the market will permit. Of course a preoccupation with internal problems and processes can be justified by the argument that this is what, in practice, co-op workers are dealing with day after day. For them, internal conflicts are real and important. Examination of such processes can throw useful light on organisational constraints, because co-operatives do need to develop a set of internal processes which are distinctly different to those of capitalist firms. Being aware of such factors is one thing, however; making the leap that the solution to internal problems lies in reforming only, or even mainly, internal

98 Oakeshott, 1978,1978b.

99 Logan and Gregory, 1981.

100 Fairclough, 1987.

101 From another angle, Sraffian economics has been used to construct a model of a labour-managed economy, in a parallel with Vanek's neoclassical theory - see Bennett, 1984; Lichenstein, 1985, 1986.

processes is another. It falls into the trap of preoccupation with the appearances of capitalism rather than concern with its underlying processes. Problems are manifested internally for co-operatives, but these may be articulations of external processes.

As far as providing an analysis of the position of co-operatives in a capitalist economy, behavioural theory is little better than neoclassical theory, with which it shares many characteristics. Research from this perspective can be usefully informative - although with an excessive concentration on internal problems to the exclusion of external relationships - but is ultimately only descriptive. If explanation is sought, neither of these ahistorical frameworks is sufficient, and it is necessary to start by characterising the economy as capitalist.

2. Economics of Co-operatives II

Marxist Analysis

INTRODUCTION

Marxist political economy does not have a specific body of theory relating co-ops in the same way as bourgeois theories. Its approach is completely different, analysing economic phenomena in terms of their relationship to the whole economic and social structure, examining interrelationships, rather than dividing up into separate and unconnected 'boxes'. What marxism does offer is a scientific method of analysing economic phenomena, theorising the essential nature of capitalism and revealing its underlying structure and processes. Its aim is different to that of orthodox economics, asking different questions:

> Marx found other economists not so much wrong as inadequate. He was interested in probing beneath the appearance of society to the reality below. This meant taking nothing for granted; leaving no important phenomenon of society unexplained. What economists tend to assume as timeless features of humans and societies, Marx was determined to root out and understand[1].

In contrast to orthodox models, the central aspect of marxist theory is the fundamental importance of class as an economic concept.

Concern with workers co-ops has never been prominent in marxist political economy, certainly in Britain, perhaps reflecting their peripheral role in the economy throughout most of the capitalist era. However, they have been discussed at various times by many prominent thinkers, from Marx himself to Lenin, Luxemburg and Mandel. More recently, the lengthy and widespread crisis and restructuring of capitalist economies stimulated a resurgence of interest in marxist economics generally[2], as well as analysis of the co-operative growth which flowed from that crisis. Co-ops have also been of interest to several sympathetic socialist but non-marxist writers, perhaps most notably the Webbs. During the 1980s, in the context of widespread discussion - by both marxists and social democrats - of the nature and role of social ownership of the means of production, and of the way forward for socialist economic policy in Britain, co-operatives have moved closer to the centre of the debate.

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1 Fine, 1984, p. 18.

2 Hyman, 1979.

The remainder of this chapter has several aims. Firstly, it covers the essential elements of a marxist analysis of co-operatives, at an abstract level. Secondly, it reviews the work of some of the writers referred to above. Finally, it attempts to further develop a marxist view of workers' co-operatives before the approach used in this thesis is developed in the next chapter.

MARXIST POLITICAL ECONOMY

This is not the place for a full exposition of marxist economic theory[3], but some general points of contrast with bourgeois theories do need emphasising. Firstly, Marx did not start from the individual (as in neoclassical theory) nor from the technical relations of production (as in Sraffian economics). Instead he considered that in every society production is the key to the transformation of the material environment into items which people need to use, and that relations within production characterise any particular society. While the type of technology used determines the technical division of labour in production, it is based upon a relationship of power over the use of economic surplus, where the source of that power is control of the means of production by a particular class. The whole structure and pattern of production, distribution, exchange and consumption reflects those *social* or *class* relations of production, and therefore economic theory has to be historically specific to these particular conditions. Therefore, a crucial element is the historical specificity of the analysis. Hence the criticism of both neoclassical and Sraffian theory for being *ahistorical* and omitting the crucial characteristics of the society or phenomenon requiring explanation. Secondly, marxist theory is concerned with *relations* rather than things; the economy is conceived as a social process rather than as an object. Thirdly, within any society there are contradictions between the technical relations of production and the social relations of production which provide the potential for social conflict, leading to social change. Marxist theory is thus dynamic rather than static, and is not only a theory of power within capitalism but also of social change within and about capitalism.

The crucial element of Marx's thought which underlies these points is the concept of a 'mode of production', a set of social relations within which men and women produce. In his famous *Preface to a Contribution* Marx says:

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3 For an introduction see Fine, 1984, or Cole Cameron & Edwards, 1983.

> In the social production of their life, men enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political and intellectual life process in general[4]

The capitalist mode of production (CMP) is defined by (class) relations of production and the (technical) forces of production, and the articulation between the two. Whilst in any society production takes place by the application of labour to the means of production, the CMP is characterised by relations of production where a class of non-workers own the means of production and the product of labour, while workers own only the commodity labour power. Capitalism therefore is a mode of production with specific features differentiating it from other modes of production. Marx therefore rejects the 'universalistic precepts' of much neoclassical economics;

> Whenever we speak of production .... what is meant is always production at a definite stage of social development - production by social individuals[5].

Not only is consideration of the ownership of the means of production important for understanding the dynamic of the economy as a whole, but it is essential to a a coherent analysis of the production process within enterprises.

Any mode of production has two distinct levels: the mode of appropriation of nature (how is production organised), and the mode of appropriation of the product (who controls and benefits from what is produced). Both of these levels must be considered in an analysis of co-operatives under capitalism, and indeed this distinguishes marxist analysis from the bourgeois theories considered previously. The appropriation of nature in the production process is a social process, with specific characteristics such as production techniques, organisation of the labour process, division of labour, authority and control. Appropriation of the product is characterised by a set of property relations; under capitalism this is carried out on the basis of apparent freedom, according to the economic laws of commodity exchange, contrasting with extra-economic coercion in feudal or slave society.

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4 Marx 1970, pp. 20-21.

5 Marx, 1973.

Marx's method

A second distinctive aspect of Marx's analysis is his scientific method. This relates to the need to uncover the underlying phenomena which characterise a capitalist economy, its 'essential logic', whilst dealing with the forms in which these phenomena manifest themselves in the real world. "All science would be superfluous if the outward appearance and essence of things directly coincided"[6], and Marx 'described science as a process of producing knowledge by going behind the superficial appearance of things'[7]. In order to understand these underlying phenomena, Marx's method starts with existing notions (such as concepts of people and nature) and develops highly abstract but simple concepts. These abstract concepts do not in themselves appear directly in the real world, but by a process of reasoning their interrelationships and internal contradictions can be worked out to provide more complex but less abstract concepts. Gradually, observed features of the actual world are incorporated into abstract concepts until the concrete is reproduced; "for Marx, therefore, science implies a hierarchical relationship between concepts and, what is more, this pyramid is related to the hierarchical relationships of determination which link phenomena in reality"[8].

This method is a crucial element of marx's economics, and in this chapter I will attempt to use it to investigate further the position of co-ops in a capitalist economy, and particularly such contentious issues as co-operative 'degeneration'. To start with, I analyse co-ops at an abstract level. That is, the position and role of co-ops is abstracted from any concrete situation so as the basic concepts can be brought out. I will then consider co-ops in a less abstract context in the rest of this chapter, whilst the lowest level of abstraction - dealing with the actual state of co-ops in Britain - will be left for the bulk of the thesis.

Co-ops and capitalism

The central aspect of a marxist analysis of co-ops to to locate them in the wider processes taking place in a capitalist economy. Starting at an abstract level, it is possible to identify the most fundamental processes acting on on co-ops, which derive from their very nature.

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6 Marx, 1959, chapter 48.
7 Fine & Harris, 1979, p. 6.
8 Harris, 1978, p. 284.

The CMP is dominated by the process of production, appropriation and accumulation of surplus value, and by the class struggle which is inherent in it. Within this, co-ops are in a contradictory position. The central feature of a workers' co-op is that workers own the means of production, giving rise to a specific set of social relations within the enterprise. These are in direct conflict with the social relations of the CMP as a whole, based on capitalist ownership of the means of production. Orthodox theories consider that whilst co-ops are different to capitalist enterprises, the two meet as equals in the market, in the process of 'equal exchange'. By contrast, marxist analysis considers that relationships in production, not exchange, are paramount, and that the nature of the forces and relations of production determine the dynamic of the economy as a whole, even outside of production itself. Therefore, whilst the contradiction between labour and capital is 'abolished' at the level of the unit of production, it is maintained on a social scale[9]; the existence of co-operatives does not transform the social division of labour or the political economy of class struggle embedded within the CMP.

Co-ops are tied in to the process of accumulation by virtue of their relationship as producers to other producers (capitalists) through competition in the market. Their position is subject to two contradictory forces (1) the competitive relationship with other producers, and (2) opposition to the capitalist mode of production. Capitalist accumulation necessitates attempts to increase the exploitation of workers by capital through increases in absolute or relative surplus value, in order to counteract the tendency of the rate of profit to fall. The very structure of co-ops represents workers' attempts to both challenge that exploitation in the immediate context of individual enterprises, and in the ownership and power structure of the CMP as a whole. This does not mean that co-ops will succeed in reducing exploitation, only that there will be a conflict. This will be articulated in different ways in various concrete situations - at some times there may not even appear to be a conflict at all - but the underlying conditions of existence cannot be avoided.

Accumulate or die: co-operatives, competition and accumulation

Before moving on to examine the actual operation of market forces on co-ops, it is necessary to consider the process of accumulation and competition at an abstract level. In a system of commodity production each individual producer faces the market in competition with other producers. Competition takes the form of a process, whereby there is a constant pressure to

9 *Bettleheim, 1977, p. 529.*

cheapen commodities by reducing their value or the labour time necessary for their production, for this is the only way that owners of commodities can be sure of selling them. This is primarily achieved by developing more productive technology to enable lower unit costs of production, by renewal of production methods, and by producing in larger units ('economies of scale'). All of these require the accumulation of capital.

Accumulation and competition represent two sides of the same social process, resulting from the nature of capital as self-expanding value. The social aspect is that whatever decisions individual capitalists take, the process cannot be avoided - it follows from the very nature of being a capitalist. The form may vary; for individual capitalists competition and accumulation can take be either aggressive or defensive; the first involves attempting to gain an advantage by reducing production costs below those incurred by other capitalists, the second a strategy to respond to aggressive competition from other capitalists. But although the form of competition can vary, it cannot be avoided; "the need to accumulate is felt by each individual capitalist as an external coercive force. Accumulate or die; there are few exceptions"[10].

The constitution of co-operatives as non-capitalist enterprises does not alter this situation; they too must 'accumulate or die'. The behaviour of individual enterprises - whether capitalist or co-op - does not depend on "the good or will of the individual" because "free competition brings out the inherent laws of capitalist production, in the shape of external coercive laws having power over every individual capitalist"[11]. As capitalism became established, independent artisans and other modes of production were destroyed by the combination of rapid increases in productivity which resulted from the capitalist organisation of industry and the evaluation of the productivity of different producers in the market. In principle, newly emerging co-operatives face the same pressure and the need to match increases in capitalist productivity in order to survive.

Given that the main means of reducing the labour time involved in production of commodities is investment in new or large scale technology, the ability of individual capitalists to compete is limited by the potential to accumulate. This can take two forms. Firstly, capital may grow through profits which are retained and re-invested; this process of *concentration* takes place gradually over time. Secondly, a capitalist may take over or merge

10 Fine, 1984, p. 36.
11 Marx, 1954, p. 270.

with another capitalist, so that the existing productive resources become gathered together in larger and larger units. This is the *centralisation* of capital, and through this process larger capitals can emerge much faster than through concentration.

That accumulation and competition are two sides of the same coin is clearer in the case of concentration. A firm which is not competitive will be less profitable and less able to accumulate through reinvestment, leading to even less competitiveness, and a vicious circle. The only way for such a firm to survive is to increase the rate of exploitation, but without accumulation there are physical limits to this.

Co-operatives cannot avoid the competitive pressures of the market unless they are completely divorced from market relations, and therefore they must also accumulate, if they are to remain competitive over a period of time. Failure to accumulate will put pressure on co-ops to increase exploitation of workers in order to survive. The question of how co-ops relate to the two sources of accumulation will recur later, but at this point two observations are helpful. In principle, co-ops can accumulate through concentration, by reinvesting profits and increasing the productive resources at their disposal, although the rate at which they can do so depends (as for any firm) upon their profitability. Growth through centralisation is more difficult. Takeovers occur through the purchase of one company's share capital by another, usually involving borrowing through the credit system. A 'pure' co-op does not have tradeable share capital, and therefore cannot be taken over in this way; however, in theory at least, a co-op could take over a capitalist firm, or two co-ops could merge if the members so decided.

Co-ops' weaknesses in accumulation

At a less abstract level, we can examine how the actual form of co-ops impacts upon their competitive position. Firstly, co-ops start off at a competitive disadvantage because of a frequent lack of initial finance to purchase productive resources. This will be exacerbated if co-ops attempt to pursue socialist objectives, as these will all tend to reduce profitability. In addition, co-ops frequently suffer from skill shortages, which will tend to restrict productivity further. This can stem from an inability to attract or retain people with certain skills, particularly where co-op wages - which tend to have much lower differentials than in capitalist firms - are significantly below market rates. Secondly, there is in any case a lack of workers with both managerial skills and a commitment to socialist principles.

In practice of course the strength of competitive pressure varies across the economy, and in certain sectors it is possible to make above average profits. There will be a tendency for co-op to seek out such areas - niche markets - where competition is less intense, and where it is possible to make above average profits. This also applies to capitalist firms, who will also seek out areas of higher profits, but the pressure on co-ops is greater because of their inherent disadvantages in a capitalist economy. There will be other factors which also affect the tendency for co-ops to operate in certain sectors - e.g. the nature of the labour process, degree of capital intensity, general economic conditions in the industry - but in view of the central role of accumulation and competitive conditions we can initially abstract from these and concentrate on co-ops' market relations.

MARX ON CO-OPERATIVES

The origins of workers co-operatives as attempts by workers to secure the full product of their labour, in reaction to the exploitative conditions imposed by capitalist production, made them objects of attention for nineteenth century socialists, who supported their potential contribution in the transformation from capitalism to socialism. Marx devoted some limited attention to them in various works[12], and much of what he said remains applicable to the worker co-operative movement today. He offered critical but enthusiastic support; essentially he saw them as representing the political economy of labour rather than the political economy of capital, and admired them as prefigurative forms of socialism. In 1864, in his inaugural address to the International Working Men's Association he spoke highly of co-operatives:

> But there was [in 1848] in store a still greater victory of the political economy of labour over the political economy of property. We speak of the co-operative movement, especially the co-operative factories raised by the unassisted efforts of a few bold 'hands'. The value of these great social experiments cannot be overrated. By deed, instead of by argument, they have shown that production on a large scale, and in accord with the behests of modern science, may be carried on without the existence of a class of masters employing hands; that to bear fruit, the means of labour need not be monopolised as a means of domination over, and of exhortation against, the labouring man himself; and that, like slave labour, the serf labour, hired labour is but a transitory and inferior form, destined to disappear before associated labour plying its toil with a willing hand, a ready mind, and a joyous heart.[13]

12 *See Lowit, 1962, for Marx's collected works and comments on co-operatives.*

13 *Marx, 1974, p. 79.*

and elsewhere adds that:

> The co-operative factories of the labourers themselves represent within the old form the first sprouts of the new, although they naturally reproduce, and must reproduce everywhere in their actual organisation all the shortcomings of the prevailing system. But the antithesis between capital and labour is overcome within them, if at first only by way of making the associated labourers into their own capitalist i.e. by enabling them to use the means of production for the employment of their own labour[14]

Marx acknowledges here that co-ops will face difficulties in their confrontation with capitalism. Below he starts to identify the conditions which lead to this:

> At the same time, the experience of the period from 1848 to 1864 has proved that, however excellent in principle, and however useful in practice, co-operative labour, *if kept within the narrow circle of the casual efforts of private workmen,* will never be able to arrest the growth in geometrical progression of monopoly, to free the masses, nor even to perceptibly lighten the burden of their miseries. It is perhaps for this very reason that plausible noblemen, philanthropic middle-class spouters, and even keen political economists, have all at once turned nauseously complimentary to the very co-operative labour system they had vainly tried to nip in the bud by deriding it as the utopia of the dreamer, or stigmatising it as the sacrilege of the socialist. To save the industrious masses, *co-operative labour ought to be developed to national dimensions, and, consequently, to be fostered by national means.*[15] (emphasis added)

Despite their merits co-ops do not exist in isolation, and the pressures of a competitive capitalist economy would force them to replicate capitalist practices if they were to survive commercially. This was probably the first exposition of the 'degeneration thesis'. However Marx was clear that this degeneration was conditional, dependent on the relationship of co-ops to the rest of economy, and not solely on their own efforts. Earlier, Marx had supported the 'nationalisation of co-operation' to prevent such degeneration[16].

Marx clearly valued the experience gained and the examples provided by co-operative working, which went some way towards satisfying the demands of collectivised and socialised activity and provided intellectually demanding work involving decision-making. Potentially, through co-operatives workers could add to themselves rather than sell themselves as a commodity. Yet Marx and Ernest Jones were pessimistic about the potential of co-ops, feeling that they could never challenge the concentration of capital achieved in dominant industrial firms by seeking to outcompete them. They considered that the

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14 Marx, 1959, p. 440.

15 Marx, 1974, p. 80.

16 In fact this was urged by the Chartist leader Ernest Jones in a letter written in 1851 (Marx & Engels, 1979). However it is acknowledged that Jones was heavily influenced in this by Marx and reflected the latter's thinking.

'socialism' of producer co-operatives in a market economy could never progress to communism without a political strategy linked to that of the labour movement. In practice, the 19th century producer co-operatives of Britain and Europe tended to be linked to liberal utilitarianism and philanthropy rather than with working class political parties and trade unions. As a result, Marx saw them as a bourgeois distraction for the growing labour movement. We will see later how this basic issue remains unchanged today.

The general point needs making that Marx did not consider co-ops "in and for themselves, but always in the general perspective of working class emancipation"[17]. This point is absolutely central to a marxist analysis of co-operatives. The crucial issue is not whether co-ops improve the position of workers in those co-ops, but what contribution do they make to transforming the position of workers *as a class*. This approach distinguishes marxist from bourgeois/orthodox analysis - analysing co-ops on a class rather than an individualistic basis.

CO-OPERATIVES AND SOCIALISTS SINCE MARX

Many writers have seen Marx's position on co-operatives as contradictory, on the one hand supporting them as precursors of socialism, and on the other dismissing them as doomed to fail or degenerate. Such a view is based on a misunderstanding of Marx's political economy. ***The contradiction is not within Marx's analysis but is in the position of worker co-operatives in a capitalist economy.*** Yeo points out that Marx did not attack the *idea* of co-operatives, only the deformation of the idea which appeared in practice; a further example where a distinction is needed between the abstract concept and its concrete form. In fact a misunderstanding of Marx with respect to co-operatives - and indeed on many other issues - is the rule rather than the exception. Amongst non-marxists it is widely considered that Marx and marxists are unsympathetic towards co-ops, because co-ops will *inevitably* degenerate, either failing commercially, or becoming transformed into capitalist enterprises, and that there is no possibility of them succeeding *as co-operatives* in a capitalist economy. This orthodox interpretation has been put forward by Tomlinson in a comprehensive compilation and critique of marxist writings on co-operatives:

1) Profit maximisation, central to the operations of a capitalist economy, provides a clear-cut criterion on firms as to their success and failure. This measure in

17 *Yeo, 1983, p. 95.*

turn regulates the flow of investment from elsewhere in the economy and so governs the survival or otherwise of the firm. (The operation of the much vaunted 'law of value' often amounts to no more than this).

2) Co-operatives (or indeed any other form of enterprise) if they are to survive in a profit-making economy will have to adopt the management practices of capitalist firms, imposed by profit-maximisation, or go out of business.

3) Thus 1 and 2 imply that co-operatives as effective alternatives to capitalist enterprises cannot exist without an overthrow of the entire capitalist system[18].

Tomlinson's writings will be discussed later in more detail. For the moment I am concerned with exposing this interpretation as a misunderstanding of many writers on co-operatives coming from a marxist or socialist tradition.

The Webbs and their influence

Marx's work has been drawn upon by a number of writers and researchers (although not all marxists themselves), dealing with the potential of worker co-ops as part of a strategy of transforming capitalism. They reach a range of conclusions; some emphasise the internal dynamics of co-ops and tend towards the behaviouralist view that effective internal reorganisation (broadly defined) is the main obstacle to success for worker co-ops. But pessimism towards co-ops' potential contribution to wider social and economic forces for change has been more common on the left, in view of the constraints imposed on co-ops by market relations.

The earliest British writers to devote substantial attention to co-ops were the Fabians Beatrix Potter (later Webb) and Sidney Webb, writing around the turn of the century[19]. Although not marxists, they were active socialists and were highly influential in development of political and economic strategy of the British labour movement and the emergent Labour Party. Many subsequent writers have drawn upon their work and it has formed the basis for many different strands of debate.

The almost universal interpretation of the Webbs' work is the prediction that co-ops would inevitably either fail commercially or as co-operatives. Their findings - on the basis of extensive empirical investigation in Britain and Europe - contributed to the distinct lack of

18 Tomlinson, 1982, p. 33.
19 Potter, 1891; Webb, S. & B. 1914, 1920.

enthusiasm towards worker co-ops in the trade union movement[20]. The strongest recent attack on the Webb's work and conclusions has been carried out by D.C. Jones[21], who was concerned with rehabilitating the idea of workers co-ops following the Webbs pessimism. Jones characterises the Webbs as deterministic, prejudiced and empirically wrong. He concluded that they were mistaken in claiming the almost inevitable degeneration of socialist co-operatives, and his work has been powerful in informing subsequent debate concerning the degeneration thesis and its relationship to socialist thought on co-operatives. Thus Coates refers directly to Jones' work when taking the view that "there is good reason to question some of the Webbs' more caustic judgements"[22].

This work has been extensively criticised by Clarke[23] - who notes that Jones presents a largely [neoclassical-KJ] economic and statistical analysis, rather than a political analysis. Fairclough[24] has also carried out a detailed examination of the Webbs work on the degeneration of co-operatives, particularly in the light of Jones' criticisms. He undertakes a thorough and effective rebuttal of Jones' arguments, exposing the shakiness of his empirical analysis and the formal nature of his measures of participation and degeneration. The Webbs viewed degeneration in terms of changing class relationships within co-operatives; firstly on the likelihood of the growing influence and control exerted by outside capital (external shareholders), and secondly on the emergence of a class of wage labour within the co-operative, excluded from the control and security enjoyed by members. Jones relied heavily on formal measures of participation, rather than the Webbs' politically informed classification. Within these measures the concentration is on the the worker membership of management committees of co-operatives rather than on the relationship between members and non-member employees, which was central to the Webbs' analysis. Fairclough also shows that Jones' sampling methods were unsound, and that when corrected the Webbs' arguments for degeneration are *supported* by Jones' evidence rather than undermined.

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20 *Although the Webbs views and findings were important in the formation of negative attitudes towards co-ops in the labour movement, it was not the only or even the major influence. Opinion was also strongly affected by the negative experiences of unions which had been involved in the formation of co-ops, often to their substantial financial cost. Towards the end of the 19th century, many socialists - faced with the concentration and centralisation of capital, cam to advocate the socialisation of means of production on a collectivist basis, and regarded producer self-management as archaic, a view encouraged by the conservatism of its surviving exponents (Clarke, 1983; Hyman, 1981). As a result the labour movement in the early 20th century favoured nationalisation and consumer co-operation, while worker co-ops were neglected on both practical and academic levels.*

21 *Jones, 1975.*

22 *Coates, 1976, p. 30.*

23 *Clarke, 1983c, p. 15.*

24 *Fairclough, 1986.*

It is important to point out that the Webbs were clearly sympathetic to the aims of those co-operatives which set out to be alternatives to the capitalist economy. Potter defined these as Class I co-ops and described them as follows:

> Associations of workers formed on the Christian Socialist model; selecting the committee of management from among their own numbers, and employing members only... there are only eight societies in the first class, four of which ... deserve, however, an honourable mention, as the only associations true to their ideal of a "Brotherhood of Workers." From their own standpoint these associations defy criticism[25].

However they broadly concluded that socialist-oriented co-operatives were almost certain to degenerate into 'associations of small masters' and become indistinguishable from capitalist firms operating in the same market situations.

> Democracies of producers, as all experience shows ... have hitherto failed, with almost complete uniformity, whenever they have themselves sought to win and organise the instruments of production. In the relatively few instances in which such enterprises have not succumbed as business concerns, they have ceased to be democracies of producers managing their own work, and have become in effect associations of capitalists ... making profits for themselves by the employment at wages of workers outside the association[26].

It is important to realise that they were specifically interested in those co-operatives with avowedly anti-capitalist intentions; their analysis of degeneration was applied specifically those co-operatives with this orientation. They considered that the majority of co-ops were already degenerate by their own definition and thus were not 'Democracies of Producers' at all. Their analysis was not applicable to the many co-operatives which were already acting in a capitalist fashion.

The Webbs essentially saw degeneration occurring because co-operatives would be commercially weaker than their capitalist competitors. They gave three main reasons for this process. The first was failure to secure adequate workshop discipline - they felt that hierarchical organisation was essential for efficient production, and yet a manager who was both in charge of and responsible to the workforce would be in an impossible position. The second problem was that co-operatives which were predominantly set up by craft workers would lack the necessary marketing skills and sufficient knowledge of their market. Finally, there would be reluctance to adopt new technical processes if they involved making any

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25 Potter, 1891, p. 139.

26 Webb S & B, 1920, p. 155.

workers or skills redundant. These problems were presented as internal defects, rather than due to the location of co-operatives within a capitalist system:

> we infer that it is the very form of Associations of Producers that is ill-adapted to survive ... we think that it is these inherent drawbacks of the Self-Governing Workshop, rather than any accidental or remediable defects, that account for both the relative failure everywhere of this form of the organisation of industry[27].

Although their conclusions were strong and they were pessimistic on the potential for co-operatives not to degenerate, their analysis did not have the determinism which has subsequently been ascribed to it. They were also concerned to determine the conditions under which degeneration could be avoided. Central to these conditions was an analysis of the impact of market forces, and they stressed that in the few cases where degeneration had been avoided it was because market forces had somehow been softened. In particular they viewed the links between producer and consumer co-operatives to be highly beneficial; the latter could provide a protected market, assist in planning product requirements, and provide managers if necessary, going some way towards overcoming problems of commercial weakness.

On the negative side, the Webbs' primary concern was that co-operatives would accentuate divisions within the working class, because of the nature of the degeneration process which affected them. They identified two main processes arising from the commercial weakness of co-ops in the pressures of the competitive market. Firstly, divisions would arise internally; co-operative members, with secure employment and relatively good conditions, would be forced to protect their own positions by employing wage labour, with no rights to share in profits or decision making. Fairclough[28] notes that this is in effect the emergence of a dual internal labour market within the co-op, consisting of 'central' and 'peripheral' workers[29] or 'primary' and 'secondary' segments[30]. The Webbs classed these co-operatives as 'Association of Small Masters', that is, reproducing the wage-earner class. Secondly, co-operatives would be vulnerable to takeover by outside capitalists. Unlike most of todays co-ops, those in existence at the time of the Webbs' writings permitted outside shareholders. Frequently these were trade unions, other producer co-operatives, consumer co-ops, ex-workers and other 'sympathetic' outsiders, but a tendency towards undercapitalisation

27 *Webb S & B, 1914, pp. 21-22.*

28 *Fairclough, 1986b.*

29 *Friedman, 1977.*

30 *Rubery, 1983.*

inevitably made co-operatives vulnerable to control by finance capital. Indeed the degeneration of co-operatives into joint-stock enterprises was a frequent occurrence in the nineteenth century[31].

At the Webbs' writing, advocates of producer co-ops claimed that their generalisation could end the wage-earner class system of capitalism. This position was encouraged by middle-class social reformers such as E.V. Neale and Thomas Hughes, and drew upon the earlier ideas of Robert Owen and John Stuart Mill[32], and received some support from the economist Alfred Marshall[33]. They were suggesting that co-operatives had much greater potential than do most advocates today. The Webbs' polemical objective was to undermine this view, and was represented in the culmination of their work on producer co-operatives - the supplement to the *New Statesman* on 'Co-operative Production and Profit-Sharing' in February 1914. This supplement addressed the question 'Can the Organisation of Industry be Based Exclusively on Associations of Producers?'; their analysis aimed to show the problems of a widespread co-operativism as a socialist political strategy, and as the basis for the economic organisation of a future socialist society

> We are agreed ... that land .. [and] .. industrial capital ... must be freed from individual or class ownership, and vested in the community for common benefit. But about the manner in which industry will be organised when this had been effected there is no identical vision. We seek to clear our minds on this point[34].

The Webbs were not anti-co-operative per se but were concerned with putting their potential into perspective and to specify the conditions under which co-ops could be successful as a part of such a socialist strategy. In the same issue of the *New Statesman* in which the Webbs' supplement appeared, an editorial argued that:

> while Associations of Producers cannot of themselves provide the sole or chief basis for the organisation of industrial democracy, they may nevertheless in one form or another provide an essential element which, as time goes on, will secure increasing recognition from society as a whole[35].

Clearly, co-ops were not being completely dismissed as a result of the Webbs' work. However, they did have further concerns about the divisiveness of co-ops, beyond internal labour-labour relations. This was related to their particular view of the supremacy of the

31 *Thornley, 1981; Jones, 1894; Cole, 1944.*
32 *Mill, 1970.*
33 *Marshall, 1907.*
34 *Webbs, S. & B., 1914, p. 1.*
35 *New Statesman, February 14th, 1914, p. 584.*

consumer interest (shades of neoclassical 'consumer sovereignty'?) and the inherently anti-consumer interests of producers. Market pressures would also force individual co-operatives to compete with each other in the market, in a manner which was essentially undemocratic:

> In the first place, it is a strangely distorted view of democracy to break a community into tiny self-governing circles of producers, which by the very nature of their activities must fight each other to the death or combine to impose price and quality on the public ..... For it is self-evident that all Associations of Producers ..... are directly opposed in their interests to the interests of the community[36].

Certainly there was frequently intense competition between producer co-operatives. The Webbs were concerned about

> the feature of their extreme mutual independence; and often their relentless competition with each other in the same trade. This rivalry is most marked among the ... boot manufacturing societies, and to a lesser extent among the ... printing societies, which compete furiously with each other, and with the Co-operative Wholesale Society, for the custom of the Co-operative Societies (Associations of Consumers). A similar rivalry marks ... the French Associations of Producers, and must ... be deemed one of their characteristics.[37]

They cite further the experience of French co-operatives:

> "We have made a mistake in France, and we must admit it," regretfully confessed recently an ardent co-operator. "We meant to establish co-operative production ... what we have done is merely to create little shopkeeping establishments which compete with each other, and have just the state of mind that the coal dealer at one corner of the street had for the coal dealer at the other corner." (said in discussion in *L'Association Ouvriere*, November 25th, 1912)[38]

In contrast they extol the achievements of consumer co-operatives:

> ... the great and growing Co-operative Movement of Associations of Consumers ... has succeeded as markedly as the Associations of Producers have failed[39].

On the basis of this work, the Webbs concluded that the labour movement should concentrate upon building up consumer, rather than producer, co-operatives[40]. They

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36 Potter, 1891, p. 118.

37 Webb, S. & B., 1914, p. 20.

38 ibid., p. 8.

39 ibid., p. 20.

40 Consumer co-ops generated the Webbs support on the basis of their apparent success, which ultimately was not maintained. Consumer co-ops did make certain achievements to benefit the working class; Yeo notes that "by 1900 it was called the most argued that the consumer interest was a universal interest, whereas producer co-ops would benefit only those working in them rather than the wider community. This is of course in complete contrast to the work of Marx, who favoured producer co-operatives rather than consumer co-ops.

> We recommend to the working men to embark in co-operative production rather than in co-operative stores. The latter touch but the surface of the present economical system, the former attacks its groundwork[41].

The basis of any economy and society is the way in which production is organised, and the Webbs were wrong in looking to transform society by transforming the organisation of consumption; ultimately production must be the focus of attention[42]. It is instructive to note that in the latter half the 1980s history is repeating itself, as the Labour Party adopts a similar approach, focussing on exchange processes and consumers, rather than on production.

Besides falsely elevating consumption to primacy over production, the Webbs' analysis was also weak because it was ahistorical. They failed to locate the commercial weakness of producer co-operatives within their relationship to the capitalist economy and the need to compete. Hence they could conclude that the difficulties experienced by co-operatives would always apply. They were concerned as to whether co-operatives could form the basis of the organisation of industry in some form of socialist economy, and used the results of their investigations and analysis to conclude that co-operatives were unsuitable as the major form of industrial organisation both within capitalism and the "State of To-morrow".

The problems which the Webbs identified had put co-operatives at a disadvantage when competing with capitalist firms, but were not wholly negative. An improved quality of

varied if not the largest business enterprise in the world" (Yeo, 1986:v). It also had some success, through its sheer size and market power, in forcing capitalists to compete on its terms, providing 'decent food at decent prices'. However, the movement was characterised by a perpetual subordination of the interests of its 200,000 employees to members (consumers), with attempts made to keep wages low in order to boost profits and dividends, and severe limitations on the rights of employees to participate in the membership of societies. There were constant battles with the workers' union, and disputes were frequent. Striking workers at the CWS shoe factory in Leicester set up their own producer co-op in 1886 (Equity Shoes) rather than be starved into submission. Despite its collectivist aspects, it failed to fundamentally alter attitudes, to change commodity relations or the wage-labour status of employees. Since the mid-1950s the movement has done little but mimic the dominant force of private capital, and is now virtually indistinguishable from any other retail chain. Perhaps the slogan of the movement - "to bring co-operation into politics, not politics into co-operation" (Yeo, 1986:vii) - goes some way to explaining its degeneration and incorporation into capitalism.

41 Marx, 1964, p. 346.

42 The Webbs had an ability to marshal extraordinary ability to marshal mountains of material to make a case, but cannot be thought of as very profound theoreticians (Tomlinson, 1982, p. 5).

work, and a reluctance to dismiss workers because of market-dictated changes in technical processes, are factors which should be valued in any socialist society[43]. To conclude that co-operatives can never be viable as a form of industrial organisation does not appear to be justified, although competitive pressures can make it difficult or impossible to pursue these objectives in a capitalist economy.

The Webbs' position is based on their belief, common to Fabians of the time, in the merits of 'elitist bureaucratic collectivism'. They had a conception of the inherently hierarchical nature of industry and the impossibility of electoral structures there. This gave them a narrow view of degeneration which did not acknowledge any possibility of the advancement of worker control within co-operatives. Subsequent development of marxist theories of the labour process have opened up a wealth of debates of major relevance to co-operatives, which will be explored in a later section.

The Webbs did not appear to consider that workers could conceivably be capable of running factories without managers or 'masters'; nor did they consider that low efficiency might be due to conflict between those managers attempting to implement capitalist methods of work organisation against the resistance of workers who resented this imposition. Clarke notes that:

> The Webbs frequent reference to the lack of management authority to impose work discipline in producers co-operatives, is reminiscent of a *Spectator* report ("a Philistine English periodical") of 1866 upon which Marx commented with amusement, "The same paper finds that the main defect in the Rochdale co-operative experiments is this: 'They showed that associations of workmen could manage shops, mills, and almost all forms of industry with success, and they immediately improved the condition of the men, but then they did not leave a clear place for masters.' What a dreadful thing!"[44].

Nor did the Webbs favour democratic worker control within an enterprise even as an ideal; they felt that democratic control of an enterprise was inherently weak and that a management subject to workers' control would not be effective, and that a structure enabling 'strong' management was essential. The Webbs' dismissal of worker control, even as an ideal, is perhaps less surprising when the nature of socialist thought in the 1920s is recalled. It was in the Soviet Union at that time that the debate about the nature of 'socialist

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43 This does not mean that jobs should be unchanging; in the face of technical change and improvements in production techniques, dismissal or keeping the same job are not the only options. In a socialist society "job evolution" or the planned re-organisation of work is possible and desirable, in contrast to the situation under capitalism.

44 Marx, 1976, p. 449, quoted in Clarke 1983c, p. 11.

production' was taking place, both with regard to the nature of control in production and the nature of technology. This debate ended with the espousal of Taylorism and scientific management by Lenin, with its concomitant hierarchical structure in production and centralised control. The failure to develop worker control of production and wider democracy in the USSR contributed to much of its more recent economic and social difficulties[45].

Despite these criticisms the Webbs carried out valuable work on co-operatives, the merits of which are largely ignored today. In particular they did offer some insight as to how degeneration could be avoided. They identified some co-operatives which had overcome the fact that "in active competition [they] could not stand in open market" by the fact that they had secured a high degree of market protection, through links with consumers co-operatives; "practically they have a 'tied market' - that is to say, the Associations of Consumers with whom they almost exclusively deal"[46]. For the Webbs the main potential for co-operatives lay either in sectors where market forces were less binding, or in the amelioration of market forces by one means or another:

> the self governing workshop, where the workers enjoy absolute autonomy, is proved by long and varied experience to be, in all but the most exceptional cases, neither stable nor, so long as it endures, economically efficient, and that where any commercial success has been attained it will be found that it has been gained with a close market, nearly always the partially tied market of the Associations of Consumers[47].

In particular they saw the potential of tying co-operatives into direct relations with consumer co-operatives. Such a relationship would avoid having to sell products on terms dictated by commercial capital, and would also assist in the provision of marketing and management expertise.

Modern marxists: Mandel and others

More recent marxist analysis of workers' co-ops has tended to be pessimistic towards their potential. There are two main lines of argument running through these views, one relating to co-ops as enterprises, the other to class formation. The first is along the standard lines of the degeneration thesis, that the constraints imposed by competition will in practice force co-ops towards capitalist methods of production, or cause them to fail commercially if

45 Mandel, 1987.
46 Webb, S. & B., 1914, p. 17.
47 ibid., pp. 29-30.

adhering to socialist or co-operative principles. The point has been made in a well-known piece by Mandel:

> There have been many examples of workers' co-operatives that went wrong: there have been some that have "succeeded" - in capitalist terms that is! All that they have succeeded in, however, has been to transform themselves into profitable capitalist enterprises, operating in the same way as other capitalist firms[48].

He then goes on to emphasise the negative aspects of market competition:

> Not only is self-management limited to the level of the factory, work-shop or assembly line, an illusion from an economic point of view, in that the workers cannot implement decisions taken at this level against the operations of market laws, but, worse still, the decisions taken by the workers become more and more exclusively restricted to decisions about profits, as can be clearly seen in Yugoslavia. The fundamental principle underlying self-management, which is the liberation of labour, whereby workers dominate the process of production, decide for themselves the speed of the assembly line and the organisation of work in the factory, and which is part and parcel of the sort of socialist society we are trying to build, is unrealisable in an economy which allows the survival of competition.
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> As the Yugoslav example shows only too clearly, the survival of competition imposes certain unavoidable imperatives on the units of production. They are faced with an unenviable decision. On the one hand, they can accept the logic of rationalisations: reduction of the labour force, speed-up, and so on. On the other, they can reject this logic, thus condemning certain units of production to operate at a loss and to pay wages far below average rates. The only solution to all these questions is to regulate industry at a social level, thus allowing for an effectively planned economy consciously run for the process of deproleterianisation to advance.

Mandel clearly links the problems faced by co-operatives not just to capitalist ownership of the majority of enterprises, but to the domination of the economy by markets and competition. Nichols reinforces the point:

> Capitalist relations of production consist not only of intra-enterprise relations (capitalists/managers: workers) but also inter-enterprise relations (that is between private capitals which are unregulated and unplanned). Because of this it is difficult, for example, for workers co-operatives to break away from capitalist principles of organisation (hierarchy, wage differentials, minimization of wage costs etc.). This is obvious enough perhaps in the case of the sole co-operative that seeks to stay afloat on the capitalist sea. But the same tendencies will assert themselves even if we consider the notional case of a society in which workers have appropriated all enterprises and seek to run them democratically, and on the basis of equality - unless, that is, they have

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48 Mandel, 1975, p. 18. See also Mandel, 1973.

> had the foresight to abolish the commodity relations which formerly entangled these enterprises[49].

These views have been echoed reasonably widely on the left[50]. Scargill and Kahn assert that "in general, co-operatives . . . . have a record of either failing as enterprises or conforming to capitalist economics and modes of operation. They certainly have not contributed to the transformation of the economy as a whole"[51]. And at the time of the formation of the 'Benn' co-operatives in the mid-1970s, the SWP argued that turning these failed enterprises into co-operatives would change nothing, and that as "islands of socialism in a capitalist sea", they, were doomed to fail[52].

However, there is more to the problem than the impact on the workers immediately involved; the second strand of concern about co-ops are the implications for the wider working class. Referring to the problems faced by the Scottish Daily News co-operative:

> It would have to solve them by . . . . undermining the conditions that union action has achieved in the industry[53].

Thus there is concern about the potentially class-divisive nature of co-operatives. The point was first made by the Webbs, and is reinforced by Mandel, who follows their arguments that market forces will lead to competition within the working class:

> The basis of the problem which I have attempted to elucidate is, thus, quite simple: for us, the notion of the class power of the proletariat exists in a very real sense precisely as class power and not the power of groups. To a large extent, these two conceptions are mutually exclusive. The more power is given to groups, the less is the power of the class as it is split into groups fighting amongst themselves[54].

The concern with the wider impact of co-ops on class is a distinctively marxist contribution to the co-ops debate, as other perspectives tend to confine themselves to enterprise-level issues. Class issues have been absent from much of the debate, and have not been effectively countered. Similar objections have been raised more recently in a the context of the GLC's industrial policy, with concern that the restructuring of individual capitalist enterprises through the promotion of 'flexible specialisation' by the local state, acts to undermine the

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49 Nichols, 1980, p. 25.
50 e.g Armstrong, 1983.
51 Scargill & Kahn, nd.
52 Socialist Worker, July 1974.
53 Ibid.
54 Mandel, 1975.

unity of the working class even if there are beneficial consequences for workers in the enterprises directly concerned[55].

The main counter-arguments stem from those - such as the IWC - who emphasise the beneficial aspects of the struggle, even if there is eventual failure:

> the experience of the struggle, of taking over the management's position and powers, even for a limited period of time, can only have had a powerful effect in heightening the understanding and particularly the political awareness of all the workers involved..... workers co-operatives have been and can continue to be an example, a laboratory of working class experience . . . . that such experiments have limitations is obvious to the most casual observer, but that is no reason not to learn from them[56].

This is perhaps a somewhat idealistic view of the experience of working in a co-operative; this issue will recur later, but there are many instances where workers have not been positively politicised. The contribution of co-ops to such struggle will depend on the links established with the labour movement and progressive forces. Coates is more circumspect than his IWC colleague:

> the movement to establish co-operative factories cannot be evaluated outside the context of the labour movement which gives rise to it. If producer co-operatives are part of a wholesale onslaught upon the powers of capital, in a dynamic upsurge of trade union and labour action, then they have a quite different meaning, as stimuli and examples, from that which they may come to acquire in periods of recession in militant labour activity[57].

This echoes earlier comments by Lenin, who considered that whether co-ops could be considered to be 'collective capitalist' institutions or genuine socialist organisations depended upon their particular context in the balance of class forces and their relation to the most progressive elements of the class struggle at the time[58].

Post-marxists - Tomlinson: internal flexibility and external constraints

Mandel's analysis of co-operatives, and much subsequent marxist work, tends to focus solely on economy-level forces, operating at the general level of the capitalist mode of production. Tomlinson[59] argues that in order to understand the paths followed by individual co-operatives it is necessary to examine the impact of these forces at enterprise

55 Gough, 1986.
56 Topham, 1981.
57 Coates, 1976:23.
58 Lenin, 1918.
59 Tomlinson, 1981,1982,1984.

level. He draws upon the diversity of practice in capitalist enterprises to argue that while there are pressures from the market on all enterprises to 'profit-maximise', these are not particularly tight constraints. Secondly, there is no 'Royal Road to profit-maximising'[60]. That is, market pressures do not dictate the precise *way* in which an enterprise profit-maximises, and that there are some choices over the mode of operation open to firms and co-operatives; the need to profit maximise does not determine the nature of the accumulation process within an individual firm. As a result, if a co-op wishes to adopt non-capitalist forms of operation it does have some choice, and is potentially able to follow alternative, co-operative, objectives while achieving commercial survival; by implication, the ways in which co-ops operate do not have such a high cost in terms of commercial performance that they will cause co-ops to fail. Ultimately Tomlinson urges the British left to support co-operatives because of their inherently democratic structure. In his view the combination of the variety of forms open to an enterprise and the democratic nature of co-operatives means that they do offer a real alternative to the capitalist enterprise.

Tomlinson rejects what he considers the determinism of much marxist analysis of co-ops, whereby the need to maximise profits forces co-ops to adopt the management practices of capitalist firms. He attempts to steer a fine line between this and the behaviouralist approach of disregarding external constraints altogether, whereby the dynamic of organisations becomes one of balancing diverse goals to achieve a coherent enterprise strategy:

> The implication of the existence of these 'strategic possibilities' is that co-operatives which do have different forms of organisation to the generality of capitalist enterprises *can* survive under capitalist conditions[61].

The analysis does acknowledge that co-ops' external relations have an impact on their mode of operation, but argues that the constraints operating on co-operatives need to be identified in particular cases rather than being given by the logical nature of capitalism. He suggests that co-ops should be investigated within the:

> particular constraints of operating within particular markets (product and labour) with particular means of production and within particular national economies[62].

60 Tomlinson, 1984, p. 598.
61 Tomlinson, 1982, p. 35.
62 Tomlinson, 1981, p. 63.

However, this runs the risk of becoming purely descriptive of specific situations, unless the analysis remains rooted in the underlying dynamic of capitalist economies. Whilst I would not disagree with the need to examine these particular characteristics, they must be analysed as operating in the specific context of a capitalist economy, which can in turn be first dealt with at an abstract level. Otherwise the 'particular' constraints become purely descriptive; national economies cannot be located within the operation of underlying global economic forces, and the analysis loses touch with the underlying process of accumulation.

Tomlinson's argument draws upon the theoretical work of Cutler, Hindess, Hirst and Hussain[63]. They consider that the concept of the mode of production must be abandoned in favour of a study of particular national economies and their 'conditions of existence'. This work "explicitly rejects Marx's [scientific] method and throws out the concepts of mode of production, laws of motion, value, exploitation, prices of production, and determination by the economy and replaces them with description of the interactions of particular institutions"[64]. Tomlinson's position is based upon characterising all marxist thought on co-operatives as following the deterministic 'logic of capitalism' argument that they must *necessarily* degenerate. But as Fairclough points out, this "is only one possible interpretation of the legacy of past writers in the socialist tradition"[65]. The alternative marxist approach is to analyse co-operatives starting from the most abstract concept of the capitalist mode of production and deriving the forces operating on them in the abstract form of tendencies. As anti-capitalist enterprises within a capitalist mode of production, the economic pressures towards degeneration on co-ops will be countered by their anti-capitalist origins. The analysis can progress this far without dealing with the particular form which any capitalist economy will adopt at any historical stage of its development. The next stage is to analyse the role of co-operatives as being determined by the *contradictory* operation of those forces, before finally moving to what the outcome of that contradiction will be, according to the balance of class forces in any social formation.

Tomlinson himself fails to develop an examination of how these constraints on co-ops might operate in product markets, instead confining his attention to general comments on co-ops' weakness in finance markets. He shares this approach with Thornley, who ascribes great importance to difficulties in raising finance and considers that the sector's growth will be

63 Cutler, Hindess, Hirst and Hussain, 1977, 1978.
64 Harris, 1978, p. 318.
65 Fairclough, 1986, p. 24.

limited unless "they are supplied with capital on favourable terms by sympathetic organisations"[66]. At the same time she condemns co-ops for paying insufficient attention to market forces and trying "to cut themselves off from the market and find protection in the labour and co-operative movement"[67]. Clearly there is an inconsistency in proposing that co-ops should be protected in finance markets ("capital on favourable terms") and yet dismissing the same approach in product markets.

Tomlinson may be accurate in his characterisation of some of the more general marxist writing on co-ops, but in fact the study of the operation of constraints on co-ops is within the best traditions of marxist analysis; it is not all crude determinism. Co-ops can be dealt with without jettisoning fundamental categories of marxism, and in fact can only be adequately analysed in the context of a marxist framework.

Rather than descending into an "eclectic institutionalism", it is possible to draw upon the work of previous socialist and marxist writers which deal with co-ops in the context of market constraints. The aim is to analyse how constraints operate on co-ops in particular concrete situations - particular social formations at particular times - but this does not require the abandonment of the basic categories of marxist analysis, of the mode of production, laws of motion, and the underlying class structure of society.

MARXIST ANALYSIS OF CO-OPS: A RECONSIDERATION

The view that co-ops will inevitably degenerate within capitalism does not follow from Marx's analysis, although it has ascribed to many who call themselves marxists, and stems from a misunderstanding of the status of the 'laws of motion' of capitalism. These are not 'deterministic iron laws' with definite and generalisable empirical outcomes, but have the status of tendencies. They refer to the underlying necessary relations and causal powers of objects, whereas the empirical outcome is the result of the interaction of causal powers and contingent conditions, which can occur in different forms; "the relationship between causal powers or mechanisms and their effects is therefore not fixed, but contingent, and indeed causal powers exist independently of their effects"[68]. An example relates to Tomlinson's

66 Thornley 1981, p. 80.

67 Ibid., p. 63.

68 Sayer, 1984. He illustrates the point with a 'gruesome example': a bomb contains the causal power to explode, whether or not it is actually detonated; if it does explode, its effects depend upon where it is detonated (over water or in a city). The earlier claim that the variety of forms of operation of capitalist firms show that the need to profit-maximise is only a loose constraint;

> the effects of the law of value in forcing capitalist firms to reduce the labour time expended in producing each commodity will vary according to such contingent conditions as labour resistance, availability of new technologies, the nature of the product, management characteristics, etc. Firms may respond in a variety of ways, some speeding up work rates, some automating and others closing down[69].

There are clearly many ways to improve or maintain profits. Workers can be persuaded or coerced to work harder or for longer hours; work can be reorganised to improve technical efficiency, reducing waste; alternatively, new technology may be developed which enables machines to work faster, or with improved technical efficiency. Which method is chosen will depend upon a variety of factors, such as the history of class struggle in the industry and relative strength of capitalists and workers to impose or resist changes, technical characteristics, the strength of market demand, general economic conditions and the nature and extent of state intervention in the economy. Thus, for a long period capitalists in western economies chose to increase work intensity through the widespread imposition of Taylorist techniques of job analysis and extreme division of labour. At the same time Japanese capitalists adopted a completely different strategy to achieve the same objective, building upon the values of team work instead of strict authoritarian control. But the different strategy adopted in Japan does not remove the antagonism inherent in the capitalist labour process, it merely deals with it in a different manner. And while the Japanese structure leads to relatively favourable working conditions for a privileged group of skilled workers, who enjoy employment security, high wages and some autonomy over the organisation of work, it is dependent upon the simultaneous existence of temporary and contract workers and those employed by small sub-contractor and supplier firms who do not benefit from any of these rewards.

Although alternative routes to profit maximisation do exist, the need to profit maximise in order to survive in the market remains. Nor does it follow that there exists an alternative which is suited to co-op organisation, particularly in view of the fact that most distinguishing aspects of co-op production have a cost in commercial terms. This is particularly relevant as recent restructuring has intensified competitive pressures on firms

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relationship between the object and its causal power(s) is necessary, while that between these and their conditions is contingent. See chapter 4.

69 *Sayer, 1984, p. 100.*

as market forces generally in the economy have been strengthened, and the scope of economic activity subject to them has been widened.

Variety in capitalist firms' operations tends to be at the level of fine detail. For instance, since 1979 there has been massive restructuring by firms (in which many went bankrupt) with the objective of resolving the crisis of low profitability. Different strategies have been adopted to meet this objective, but all have a common element of strengthening capital *vis a vis* labour and intensifying exploitation. The specific strategies adopted by individual firms to achieve this will depend on many factors, particularly the history of class struggle in the industry and the initial state of labour-capital relations, relations with other firms, and the nature of the particular firm's market. However, the underlying strategy, that of undermining the strength of labour within individual firms and the labour movement overall, is common to all.

The existence of different forms of operation is independent of the underlying causal mechanism, the pressure exerted on firms by the need to compete. In the same way that the existence of empirical regularities does not prove causation, empirical irregularities do not disprove causation. In fact, uncovering causal mechanisms from empirical events is not a straightforward process, as contingent conditions can operate in all sorts of ways, and counteracting forces may override and conceal the effects of the operation of a particular mechanism.

Co-ops, operating in a capitalist economy, necessarily possess the causal power (or causal liability) to degenerate, but whether or not they will degenerate in practice will depend upon the impact of a variety of contingent conditions and counteracting influences which cannot be predicted in advance. From a marxist perspective, degeneration is not a necessary empirical outcome of co-ops existence; it is degenerative pressures on co-ops which are a necessary condition of their existence in a capitalist economy, although they can be offset. All we can say at an empirical level is that co-ops will experience conflict between their own objectives and those which are - more or less sharply - imposed on them by the need to compete and survive. We say nothing about the outcome of this conflict, because it will vary depending on the contingent conditions operating in particular circumstances. What

70 *In the same way that Marx's famous (or infamous) 'tendency of the rate of profit to fall' is not an empirical prediction about whether the rate of profit will in practice increase or decrease, but it provides the basis for an analysis of interruptions in the circuit of capital and crises in the process of capital accumulation.*

we can say is that co-ops can no more escape this conflict than firms can escape the conflict between workers and capitalists, although in both circumstances the effects and severity of the conflict may be mitigated.

The conflict in the case of co-ops arises because the social relations within the enterprise (where workers own the means of production) conflict with those in the economy as a whole; co-ops attempts to avoid or reduce worker exploitation will conflict with the overall need of capitalists to increase it. This, at an abstract level, is the most fundamental condition of the existence of co-ops in a capitalist economy. At a more concrete level, we can see that if, for instance, co-ops attempt to introduce job rotation in order to avoid some of the most alienating aspects of capitalist production, there will inevitably be a cost in efficiency terms, although this can be counteracted by extra worker commitment and productivity or by some weakening of competitive pressures in that particular market.

DEGENERATION - A REINTERPRETATION

Having established that degeneration is a tendency rather than a definite empirical outcome, it remains to consider what forms degeneration may take in practice. As a starting point we can take the nature of production in co-operatives - broadly interpreted - and consider the extent to which it replicates production, from workers' perspectives, in capitalist enterprises. Conventionally, degeneration is conceived of in terms of formal ownership and power relations within co-operatives; whether ownership passes from workers to outside capitalists, or whether class divisions arise internally through the employment of a class of wage labour. These were the concerns of the Webbs, and indeed of most other commentators who have addressed the issue.

Earlier on I noted that any mode of production has two distinct levels, the mode of appropriation of nature, and the mode of appropriation of the product. In addressing formal ownership relations in co-ops, attention is being paid only to the second level, that is, who derives benefit from the surplus product - whether it is capitalists, or all or part of the workforce. Following Braverman, a full consideration of degeneration must consider the first level also, *how* production takes place in terms of the organisation of the labour process, division of labour, authority and control.

The distinction between the two levels can be seen clearly in the following passage where Marx describes the capitalist labour process:

> The labour-process, turned into the process by which the capitalist consumes labour-power, exhibits two characteristic phenomena. First, the labourer works under the control of the capitalist to whom his labour belongs; the capitalist taking good care that the work is done in a proper manner, and that the means of production are used with intelligence, so that there is no unnecessary waste of raw material, and no wear and tear of the implements beyond what is necessarily caused by the work. Secondly, the product is the property of the capitalist and not that of the labourer, its immediate producer .

These are characteristics of both capitalist society and individual enterprises within that society. For the moment I am concerned with enterprises themselves. The concern of the Webbs, and of socialists since, has been with co-operatives which are anti-capitalist and representing some form of movement towards socialism. From this starting point then, degeneration can be interpreted as movement away from this ideal.

Within an enterprise, opposition to the capitalist mode of production, and hence degeneration, can take place on both of the levels identified above. It is common for attention to be devoted to the second level only - the appropriation of the product, and hence surplus product. This is the position taken by both the Webbs and the social democrats described earlier. The latter (Oakeshott is a prime example) consider only formal ownership relations within co-operatives; once workers formally own the means of production then by definition they are no longer exploited, as they have title to the total product of their labour. The Webbs position on the concept of degeneration is the same: their interpretation was that as class divisions emerged within a co-operative, members would either exploit other workers (by employing wage labour) or would be exploited themselves (as control passes into the hands of outside finance capital); The point where the Webbs differ from the social democrats is on the conditions for avoidance of degeneration.

At the first level - the mode of appropriation of nature - social relationships are characterised by production techniques, organisation of the labour process, division of labour, authority and control. Failure to analyse degeneration on this level is due to a conception of these characteristics as either ahistorical, or desirable, or both. But by exploring the specifically capitalist nature of the aspects of enterprises, we can offer a broader interpretation of both the possible achievements of co-operatives and the scope for

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71 Marx, 1954, p. 180.

degeneration. This is particularly important for an analysis of the recently-emerging British co-operatives, which have developed a very different form of socialist challenge to capitalism than that of the 19th and early 20th century co-operatives which were the concern of the Webbs. This is due to the different historical conditions, primarily economic conditions, which led to this emergence.

Participation and Worker Control

In contrast to the operation of the older 'CPF' co-operatives, the newer co-ops have placed great importance upon developing active democratic participation by workers. This reflected a different approach towards the exercise of democracy to that of the Webbs. Co-operative structures developed in the nineteenth century followed the pattern of representative democracy established in Britain's parliamentary structure. Workers in a co-op elected representatives to a committee which would be the enterprise's sovereign body, to which managers would be responsible. Workers' interests would be defended by these representatives, who would be elected for a fixed period (usually one year), and within this period it would be committee members rather than the workers themselves who wielded power. Management roles were broadly the same as those in conventional firms.

The Webbs believed that even this indirect form of worker control was unworkable and would counter an objectively efficient method of production, and this conflict was one of their reasons for believing that co-ops would tend to fail. Their influence in the Fabian and labour movements was extensive, and the development of public ownership through municipal enterprises and later nationalised industries failed to provide any channels for worker participation in decision-making or control over management.

By the 1960s there was some disillusionment with both the monolithic corporations of monopoly capitalism and the democratic failures of nationalised industries[72] - the latter incorporating the bureaucratic structures favoured by the Webbs and other Fabians. This disillusionment was most widespread amongst those loosely associated with the 'alternative' movement, which was at times inspired by anarchism and at others simply by rejection of the establishment and the *status quo*. When co-ops started emerging from that same movement in the 1970s, there was concern that representative democracy along parliamentary lines would be inadequate, and so the search for 'radical' internal structures,

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72 see e.g. Schumacher, 1973.

which would support active participation, began. A central objective was to move away from traditional hierarchical organisation within industry, and this itself required a rejection of the traditional role of management as the peak of an internal hierarchical structure. Since then the potential for a radical form of management and internal organisation, and effective participation by workers, has concerned both co-op activists and researchers[73].

The objective of non-hierarchical organisation and active participatory democracy is not supported throughout the co-op field; the opposing views of Oakeshott and Bradley, on the need for strong and hierarchical management, have been documented earlier. But once the need for non-hierarchical (or at least less hierarchical) management is accepted, there are contrasting views on its feasibility. At one extreme is the view that while co-op management is problematic, difficulties arise primarily because it is new and undeveloped; in theory at least, management which is both efficient enough for commercial survival, and more egalitarian than that found in capitalist firms and the public sector, can be developed74. Alternatively, the development of co-op management can be further examined in relation to the capitalist labour process and the undemocratic nature of most modern technology. This approach locates the derivation of management, technology and the labour process in the specific characteristics of the mode of appropriation of nature under capitalism, and examines the potential for changes in management structure in the context of these wider constraints.

Co-operatives, Democracy, Technology and the Division of Labour

Most advocates of the extension of democracy within co-operatives have concentrated on the organisational aspects of necessary changes. It is normally suggested that new or alternative decision-making structures and methods of communication are the primary requirements for greater democracy[75]. These changes are undoubtedly important; in particular, restricted access to information is one way in which management maintains its dominant position in capitalist companies. Wider availability of information is clearly a prerequisite for effective participation in decision-making by workers[76].

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73 e.g. Pateman, 1970; Tomlinson, 1982; Landry et al, 1985; IPP, 1987; Macfarlane, 1987; Cornforth et al, 1988.
74 Tomlinson, 1982, 1984; Cornforth et al, 1988.
75 Paton, 1978.
76 Robinson & Paton, 1983.

This approach has much in common with institutional analyses of the conventional firm, which tend to concentrate on internal processes of objective bargaining and compromise between groups within the firm. What it omits is any serious consideration of the constraints on such processes. In part this stems from a conviction that technology and the division of labour are neutral, objectively serving the demands of 'efficient' production. Alternatively we can conceive of technology as being socially determined, with its form, and the associated division of labour (together making up the labour process), resulting from the dynamics of the accumulation process and the conflict between capital and labour. This has two implications: firstly, a labour process developed with the aim of profitability and the maintenance of capitalist control is not necessarily suited to production on workers' terms; and secondly such a labour process may conflict with the aims of worker participation in production.

These implications are not new or remarkable, and have been at the centre of labour process debates in recent years. What is new is relating them to the process of co-op development and the potential for worker control. The approach locates many more aspects of co-op production (and conflict) in their specific relationship to capitalism.

The labour process and work in co-ops

Although democratic participation - on the basis of ownership - is an essential element of worker control of production, to remain at this level is to rely on a very formalistic interpretation of what worker control is about. Nutzinger notes that

> ....there can be no doubt that any strategy of industrial democracy aiming at increased workers' participation in decision-making and earnings and earnings must contain humanisation of the work conditions as an essential component.....Co-determination and self-determination of the working man is not exhausted by measures of democratic control and legitimation; it has to be experienced personally in everyday work.[77]

Participation in decision-making does not necessarily translate into significantly greater control over work, if the nature of that work itself remains unchanged. Braverman's work was the first since Marx to analyse in detail the nature of work in capitalist industry, and the first to take account of the massive changes which had taken place with the introduction of mass production technology and detailed (Taylorist) division of labour earlier in the 20th century. Such technology was introduced in an earlier period of restructuring (although

77 Nutzinger, 1980, p. 146.

there are parallels with the restructuring currently taking place), and was part of the process of increasing capital's control over the labour process. Reorganising the structure of skills required and dividing production into many detailed functions undermined the previous power of skilled workers, who could retain some control over production. Detailed division of labour and deskilling enabled capital to increase control over the pace of work, thus intensifying the exploitation of labour, and also reduced many jobs to repetitive and routinised tasks. The division between mental and manual labour was a crucial aspect of Taylorian scientific management. The nature of technology and of work thus created cannot be separated from capital's need to maintain the conditions for profitable accumulation. This process is still continuing, and 'new technology' is no exception:

> New technology impelled by unrestricted market forces not only threatens the number of jobs, but also their content and quality. In the USA, the makers of numerically-controlled machine tools have recommended that they be worked by retarded people, with a mental age of 12, thus displacing high-skilled workers.[78]

Marx was highly critical of the development of the division of labour in capitalist industry, this forming an essential element in his analysis and critique of capitalism. He drew a contrast between the alienating character of labour performed in capitalist workplaces and the richness and freedom that he associated with life in a future communist era. This provides a challenge for co-operatives: unless they can successfully transform internal work processes and the nature of production (both *what* is produced and *how*) then their achievements will be limited. Such changes are necessary both for advancing the position of labour generally, in terms of developing socialist forms of production and labour process, and for relieving the oppressive nature of work experience for those in co-operatives.

This need had been previously recognised by the workers at Lucas Aerospace. In developing the Lucas Alternative Plan, they were not just concerned with the type of products made, but also the way in which work was organised:

> Already in the early 1970s it had become clear, the Combine argued,that management's attempts to replace human intelligence with machine intelligence by, for example, emphasising the universal importance of computer-controlled machine tools as against human skill, have had disastrous results. One purpose of the Corporate Plan was to campaign for radical job re-design which would protect Combine members from this deskilling process and enable them to extend their skills[79]

78 GLEB, nd(c), p. 8.
79 Wainwright & Elliott, 1982.

And as Clarke points out in relation to the large KME co-operative on Merseyside, "it is difficult for co-operative workers to maintain the feeling that they are engaging in a great co-operative experiment when their sole co-operative duty is to make several thousand spot welds each day!"[80].

The lack of attention which has been devoted to labour process issues by researchers on co-operatives is perhaps surprising, as the alienating effects of the capitalist work process has been well documented in the labour process literature, since being first put forward by Marx in Volume I of *Capital* and further developed by Braverman. The latter's work has come in for its own share of criticism, but at least there is a debate[81]. It is a sad reflection that co-operative research has been dominated by bourgeois thought and there is little or no appreciation of the labour process being historically specific; it is particularly notable that although co-ops and industrial democracy are promoted as an answer to the problem of worker alienation, there is little understanding of the causes of that alienation.

This situation also reflects a lack of attention to the development of specifically socialist technology and labour processes in the socialist states of eastern europe (although perhaps less so in the socialist states of the third world, particularly China[82]). In the Soviet Union the question of workers control at the factory level was debated during the revolution and in the years immediately after. Although the factory committees made impressive contributions to the revolution, the question was resolved in favour of hierarchical management and the workers control movement dismissed as 'anarcho-syndicalist heresy'[83]. Lenin argued for the introduction of Taylorian scientific management into Soviet industry in 1918[84], and the USSR essentially emulated the capitalist organisation of production[85]. Lenin was also concerned that one of the major problems facing the revolution was the backwardness of Russian capitalism[86], and the introduction of scientific management was an attempt to catch up with capitalist industry as quickly as possible. Emulating capitalist industry was not surprising; given that it took capitalism centuries to develop its own mode of production, it would be unreasonable to expect socialist

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80 Clarke, 1984, p. 110.
81 e.g. Elger, 1979.
82 Lockett, 1980.
83 Sirianni, 1985.
84 Lenin, 1918.
85 Braverman, 1974, p. 12-24.
86 Carr, 1952, p. 270.

production to develop overnight. Marx had in any case anticipated that socialist revolutions would first of all occur in countries with solid democratic and capitalist foundations, which would provide the basis of socialist construction. In addition, Russell notes that:

> Actually, both Marx and Lenin had always been inclined to associate a new division of labour only with the second, "higher" phase of communism; and both had always anticipated that the first phase of postrevolutionary society would accept the capitalist division of labour as it found it. Thus Marx wrote in Capital that the new society would begin by taking the existing capitalist machinery as it is and putting it to public use. And of the scientists and engineers, Lenin wrote on the eve of the revolution that "these gentlemen work today owing allegiance to the capitalists: they will work even better tomorrow, owing it to the armed workers" . That the Russian revolution did not produce a new division of labour should not thus be interpreted either as a failure or as a surprise. Nevertheless, it has contributed strongly in the West to a tendency to treat differences in ownership as irrelevant to the nature of work, and to see the division of labour as determined by other factors instead.

However, the adoption of capitalist organisation of production in the Soviet bloc has severely constrained the achievements of self-management in Yugoslavia. Even in such a system of more direct worker control of production, little attention has been devoted to developing technology, to reorganising production or restructuring the division of labour in a more socially desirable and less alienating manner. The replication of mass production technology is in part a response to a perceived need for competitive efficiency, but is also a response to a failure to consider alternatives as even possible. Braverman adds:

> The similarity of Soviet and traditional capitalist practice strongly encourages the conclusion that there is no other way in which modern industry can be organised. And this conclusion has already been sufficiently encouraged by the tendency of modern social science to accept all that is real as necessary, all that exists as inevitable, and thus the present mode of production as eternal[89].

Labour process and participation

Maintaining the capitalist labour process in co-operatives also has implications for the ability to make democratic structures effective. Several studies in Yugoslavia have found that despite formal equality amongst workers there are systematic inequalities in the actual distribution of participation in workers councils[90]. In particular, rank-and-file workers

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87 Lenin, 1961, p. 237.
88 Russell, 1985, p. 55.
89 Braverman, 1974, p. 16.
90 Pateman, 1970.

participate much less actively than do managerial and technical personnel[91]. The same is reported from Mondragon[92].

For the majority of co-ops production must take place using established technology and its accompanying inequalities. One strategy adopted by co-ops is to accept the differentiation of roles and skills as given but to rotate different workers amongst those roles; thus each worker has an opportunity to take a turn at a leadership post, and a distinct class of leaders or managers has less opportunity to emerge. Furthermore, workers will each be trained in a variety of skills, while monotonous and boring tasks - which will still exist - will at least be shared amongst a variety of workers.

The major problem with this strategy is that it requires skilled positions to be removed from workers whose whose abilities, training and experience make them well qualified to fill them, and reassigned to individuals who lack experience and perhaps other qualifications. In most branches of production some work is highly skilled and rotating workers between such posts could be a major problem. This is clearly likely to have a negative impact on commercial performance, and reinforce any tendencies towards commercial weakness which co-ops have.

More ambitious than job rotation are attempts to restructure the division of labour itself within co-operatives, aiming to create a more egalitarian organisation of work. In recent years, interest in the question has surfaced in such diverse environments as the USSR, the Israeli kibbutzim, the Mondragon co-operatives[93], and the GLC in London. Although in these cases nobody has suggested that the division of labour of some kind can be dispensed with entirely, what has been proposed is that work should be restructured in such a way that every worker can experience some degree of complexity and autonomy on the job. This can be seen as a first attempt to develop the 'socialist technology' which has been so far lacking in the socialist states of Eastern Europe. In Mondragon, efforts were inspired by dissatisfaction amongst co-op workers; although there had been achievements in reducing income differentials and the amount of supervision, there has been with few exceptions, a maintenance of conventional capitalist technology and division of labour[94]. In the mid-1970s a number of pilot projects on job redesign were carried out. Although technically

91 Zupanov, 1975; Obradovic, 1975).
92 Thomas & Logan, 1982.
93 Russell, 1985, p. 63.
94 Thomas & Logan, 1982.

successful, plans to restructure work at Mondragon's largest plant were blocked by the high retooling costs they would involve[95]. This experience clearly demonstrates the limits which the need to compete imposes on the ability of co-ops to restructure production.

In this capacity the GLC/GLEB's technology networks were a valuable innovation. Initially they aimed to contribute to the development of socially-responsible technology, providing "socially useful work that also enhances the quality of life"[96]. It involved taking control of production on terms favourable to labour, and would "build on the existing skills of operatives instead of destroying them, and leave initiative in the work process on the factory floor[97]. Following the abolition of the GLC in 1986 and the consequent restructuring of GLEB, the aims of the TechNets have been severely restricted. Rather than attempting to change the division of labour, the concern is now with training people, particularly women and black workers, to more skilled positions within the existing structure.

If successfully developed, there is no reason why such technology should be quantitatively less efficient that conventional technology. For technology to be 'efficient' in capitalist terms, it "maximises the ability of the ruling class to reproduce its domination of the social process of production and minimises producer resistance"[98] besides quantitative considerations of how much output can be produced from given inputs. Technology is chosen not just on the basis of immediate financial calculations (quantitative efficiency), but also on the basis of its contribution to the maintenance of class relations. Socialist technology can be as quantitatively efficient - and therefore not be a disadvantage in commercial terms - but with different implications for class relations, i.e. it "continually develops workers' capacity to share equally in mutual responsible and collective social relationships"[99].

Therefore (in theory at least) co-ops could use such socialist technology - if it was available - to transform relations within the co-op, and not suffer any penalty in terms of commercial efficiency[100]. However such technology will not be intentionally developed by capitalist

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95 Johnson & Whyte, 1977, p. 27.

96 GLC, nd(c), p. 3.

97 ibid.

98 Gordon, 1976.

99 ibid.

100 Although Gough (1986, p. 72) claims that this is likely to be true only in highly specialised production, and not in production in general.

industry, as clearly it works against the interests of capital[101]. Thus intervention by the local or national state, or labour movement, to undertake such development is necessary. Certainly at present the co-op movement is too weak and small to do so.

A further illustration of the link between worker control and the nature of work lies in the concentration of co-ops in certain industries. There are many reasons for this, which will be investigated in more detail later, but one factor is the the variation in the nature of work and the division of labour from one industry to another. Once formed, the potential for co-operatives to make advances in the area of the labour process also depends on various factors[102], although these may be different. Clearly the potential for job rotation, skill sharing etc. is much greater in, say, retail trade than in volume car production, although job rotation, for instance, may be easier with relatively unskilled or undifferentiated work, in view of the productivity 'costs' involved. Co-operative production will be more difficult in sectors where mass production is established (and indeed there are few, if any, co-operatives established in such areas in Britain). However, in branches where workers have established a high degree of control over the labour process, and where bespoke rather than mass production predominates (such as in printing), or where work is unskilled but unmechanised and with little skill differentiation, reorganisation of production along co-operative lines may be more successful.

This is not to assert that turning, say, British Leyland into a co-operative would be totally meaningless. If democratic structures were installed, there would be benefits as political participation in itself leads to the acquisition of political skills[103]. It is also clear that despite (or because of) the alienating effects of capitalist production, workers do have an ability to resist and overcome some of the worst aspects of such employment[104]. The potential for gains under co-operative control is further increased by the generally poor performance of professional management in Britain. The ingenuity of workers at British Leyland is illustrated in the following article:

> Night workers at a British Leyland paint shop who were found to be asleep during a spot check may face disciplinary action for an alleged breach of safety

101 However, it has been suggested that recent restructuring - in particular the development of 'flexible specialisation' in production - has very different implications for alienation and the nature of work. This aspect is taken up again in the final chapter.

102 Eaton, 1985.

103 Pateman, 1970; Blumberg, 1968.

104 Friedman, 1977.

> regulations. The 14 men in Block 38a at the Range Rover plant in Solihull, Birmingham, devised a method of completing their workload halfway through their shift so they could spend the remainder of their time asleep. ....
>
> Management made a spot check at 4 a.m. on Friday when most of the workers were found sleeping in the locker room. The conveyor track was switched off.
>
> The men are expected to be called before management today. They will be given the opportunity of having representatives of the Transport and General Workers Union present at the hearing. Disciplinary action could result in suspension or even dismissal.
>
> BL stressed that the men had been keeping to their work schedules and turning in work of the required quality.[105]

While this indicates that BL under worker control might have some flexibility to reorganise work, this is greatly limited while technology and the division of labour employed remain unchanged. It might be possible - depending on the severity of competitive pressures - to rotate boring and monotonous jobs, but those jobs would still need to be done. In general however the problems of alienation within co-operatives under the capitalist labour process will remain. The development of an alternative, socialist technology is clearly a massive task, given the immense resources, time and effort which have contributed to the present advanced state of capitalist technology. Individual co-operatives are limited in what they can achieve, and efforts at a state level are required.

Management in Co-ops

The problems caused for neoclassical and behavioural approaches by their failure to consider the nature of capitalist production also lead to difficulties in conceptualising the role and nature of co-operative management. Although there are some who do not consider that co-op management should differ significantly from that in capitalist firms, there are many for whom a distinctly different form of management is a crucial requirement; if co-ops' mode of operation is to improve upon that of capitalist companies, with the pursuit of different objectives and working practices, then new forms of enterprise management and decision-making will be required which allow workers to have real and effective control over and involvement in management decisions.

All too often, though, an ahistorical approach is taken to the question of managaement, as if deciding upon an appropriate internal structure was just a question of choosing from the selection on offer at the London Business School; there is a consistent failure to locate the

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105 Financial Times 12.11.79.

problems of developing co-operative mangement within co-ops' relationship to the capitalist economy, and a tendency to treat these problems as purely internal matters. Obviously it is important for co-ops to pay attention to their internal organisation, but it is essential that appearances are not confused with causes. Conventional management structures are integrally linked to the issue of control of the workforce, which is in turn related to the nature of production technology and hierarchy, and to the needs of competition and accumulation. Whilst the issue of control is - to a certain extent at least - transformed in co-op, many other aspects of the management function remain unchanged, particularly those aspects which derive directly from interaction with the economy. A major part of the management function is to interpret and respond to the dictates of the market, and unless co-ops' relationships with the market are transformed then there is limited scope for changing the nature of management in co-ops. And if, as some argue, the market represents the collective clas interests of capital, then questions are raised regarding the class unity of a co-operative workforce, with management representing the internal articulation of capitalist interests. If so, this implies the preservation of class conflict within co-ops even once capitalist ownership of the enterprise has been abolished.

Concluding remarks

The aim of this chapter has been to present the foundations for a marxist analysis of worker co-ops in a capitalist economy, and to clarify some of the issues involved which have led to misinterpretation of the work of previous commentators, some of which has been reviewed here. This has of necessity been rather long and involved, reflecting the complexity of some of the analysis, and the wide range of issues involved. The analysis is developed further in the next two chapters, which present the approach to be used in the rest of the thesis.

3. Co-ops, small firms and restructuring

CO-OPS AND CONDITIONAL DEGENERATION

In the previous chapter it was established that co-op degeneration had to be viewed as a tendency, rather than a definite empirical event. The nature of co-ops in practice - the 'phenomenal form' of co-op activity - depends upon the interaction of a number of different processes, the working out of conflicts, and the strength of forces which can potentially counteract degeneration. In other words, degeneration is *conditional*, and depends upon the economic and political environment within which they operate. This does not mean that we can say nothing about co-ops without examining these particular circumstances, for we know that co-ops will be dominated by the conflict between their own social relations and those in the economy as a whole. More detailed, empirical analysis can reveal how that conflict develops in particular real-world situations.

Exploration of the conditions under which co-ops degenerate is integral to the work of previous writers in the socialist tradition. The Webbs concluded that while co-ops would tend to reflect the market pressures which characterised the 'sweated sector' where they were concentrated, in the few exceptional cases where degeneration had been avoided, market forces had by some route been softened. In Britain, this was largely due to links with the 'tied market' of consumer co-ops, whereas in France and Italy it was typically due to intervention in market relationships by the state.

The importance of market relationships in shaping the degeneration or otherwise of co-ops is not surprising. It is through the market that co-ops interact with the rest of the economy, and Marx frequently emphasised that competition is the mechanism by which the laws of capitalism operate or exert coercion on enterprises. To concentrate upon the impact of market forces does not mean that coops have no flexibility in their form of operation; after all, "the market is not an undifferentiated entity but a complex of relations which impose constraints of varying rigour and arbitrariness"[1], whilst the economy is dynamic and continually changing[2]. Instead, it is appropriate to analyse in more detail exactly how coops interact with markets and competition in specific situations.

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1 Clarke, 1984, p.104.
2 unlike the neoclassical concept of equilibrium.

Such concerns are not limited to the work of the Webbs. Fairclough identifies a similar thesis in Rosa Luxemburg's work. She argued that under certain conditions and in certain market sectors, co-ops were not only able to avoid degeneration but could also be of service to the broader struggle for socialism. The way to achieve this was to secure a degree of independence from the operation of free-market forces, and that the best way to do this was in establishing allied consumers' co-ops:

> Producer's co-operatives can survive within capitalist economy only if they manage to suppress, by some detour, the capitalist contradiction between the mode of production and the mode of exchange. And they can accomplish this only by removing themselves artificially from the influence of the laws of free competition. And they can succeed in doing the last only when they assure themselves beforehand of a constant circle of consumers, that is, when they assure themselves of a constant market .... It is the consumer's co-operatives that can offer this service to its brother in the field of production[3].

Lenin also stressed the importance of different conditions on the paths which co-operatives followed, although he was concerned more with a political rather than an economic evaluation. For him, co-ops could only be a progressive force towards socialism under certain circumstances, and formal arguments about co-ops being more democratic as an organisational form did not answer the "much more important question of the particular roles that co-ops might play in socialist struggles in different capitalist societies at different times in varying paths of capitalist development"[4].

The Webbs and Luxembourg both emphasised that the development of co-operatives was dependent on particular conditions, and especially on specific market and state conditions assisting the the avoidance of degeneration. The principles of this market-based analysis are still relevant today, although the role of consumer co-ops is perhaps less so. Integral to such an analysis is a consideration of specific historical conditions, and the much reduced role and importance of consumer co-operatives in the late twentieth century must be taken into account. Certainly the Webbs supported consumer co-operatives in part because they had been so successful; this is less true today. The importance of market processes does, however, remain.

One possibility raised by the Webbs and Luxembourg is that of the involvement of the state in mediating the market pressures which constrain co-operatives. This is noticeably absent

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3 Luxembourg, 1900, p.70, quoted in Fairclough, 1986, pp.26-27.
4 Fairclough, 1986, pp.27-28.

from current debates on co-operatives, despite both Thornley and Oakeshott[5] recognising the importance of state assistance in promoting the large co-operative sectors in Italy, Spain and France, and in aiding their durability. Neither follow through to the conclusion that there is a role for the state in ameliorating market pressures to assist the emergence of a stronger co-operative sector in Britain, where the state's role in aiding co-operatives has been virtually non-existent[6]. It is only recently that the state has tried to intervene in the market, and this has largely been through the relatively powerless local state.

Without such state activity there may be market sectors where co-operatives can, for a time at least, survive. The experience of co-operatives operating in different industrial sectors will vary enormously. Not only are there different competitive forces, but there are also differences in capital-intensiveness, methods of production, and skill structures. Therefore the central focus of this thesis is indeed on the experience of British worker co-operatives and examination of their experience in different market sectors.

An analysis of the potential for such survival must take place within the context of a general political economy of small firms' dependence on larger firms. In Britain almost all worker co-operatives are 'small' (see Chapter 4 for further details), with all except a handful falling within the conventional definition of small business[7]. But before examining the position of co-operatives in such an economy today, I will first consider the role of small firms in general.

The Political Economy of Small Firms

One of the most important tendencies, or 'laws of motion' of capitalism identified by Marx was the concentration and centralisation of capital, under which total capital is fused into a smaller number of units and the average size increases. In this process, small firms become less important and increasingly marginal in the overall structure of capital. For much of this century this process has been evident in the advanced capitalist economies. In Britain, small firms were for a long time been perceived as a dying breed, survivors of a bygone age,

5 Thornley, 1981; Oakeshott, 1978.

6 The only instances have been (i) funding from the DoI for the 3 'Benn' co-ops, albeit an amount which made their commercial collapse almost inevitable; (ii) under the Industrial Common Ownership Act 1976, setting up a small capital fund for co-ops administered by Industrial Common Ownership Finance, which was not renewed by the present Conservative government; (iii) funding for the Co-operative Development Agency, which is largely advisory and firmly rejects any 'political' role for co-ops, promoting them as 'small businesses'.

7 200 workers or less is the definition used by the Bolton Report on Small Businesses (Bolton, 1971) without a major role in economies increasingly dominated by large corporations. As concentration and centralisation of capital continued, small firms appeared marginalised and inefficient. Postwar economic development emphasised the merits of size and the benefits of economies of scale; nationalisation and widespread merger activity - fostered by state efforts such as the Industrial Reorganisation Corporation in the 1960s - left small firms out in the cold.

As with all tendencies, however, Marx did not present this one as leading to smooth, linear progress. Poulantzas summarises the point thus: "I should like to recall here that the concentration and centralisation of capital should in no way be seen, in its real historical development, as a gradual, unilinear and homogeneous process. In certain periods, generally brief, this process can even undergo relative retreats"[8]. The process is a historical one, involving class struggles, inter-capitalist competition and periodic crises which interrupt its progress[9]. More specifically, small firms may have a role to play for capital in times of crisis and restructuring, and it would be wrong, therefore, to characterise small firms as survivors of an 'outdated' form of capitalist production, marginalised and destined for extinction. It will become clear that as monopoly capitalism attempted to cope with the most deepseated economic crisis for fifty years, the existence and growth of the small firm sector was an important element in the restructuring which capital undertook in order to overcome the effects of its own contradictions.

This has been witnessed in Britain in recent years, as the historical trends of concentration and centralisation were interrupted in the 1970s as the economic crisis developed. The number of small firms began to increase rapidly in the early 1970s after having declined throughout the post war period (see Tables 3.1 and 3.2 below). As a result of these dramatic changes, small firms have been the objects of much attention in recent years, both critical and favourable.

Although large firms were thought of as necessary, efficient and desirable for economic success - particularly during the 1960s - they were not universally popular. An early counter-reaction came with Schumacher's *Small is Beautiful*, published in 1973. This influential work held that the economy was becoming dangerously wasteful of natural resources and that work itself was becoming dehumanised; an experience which was

8 Poulantzas, 1975, p.145n.
9 Tomlinson, 1982, 12.

considered to be the experience of both capitalist and socialist countries. The 'Small is Beautiful' solution to the problem was for economic activity to be restored to small units, operating on a more human scale in tune with the needs of workers, the wider community, and the environment.

Table 3.1 Manufacturing enterprises with ten employees or less

Year	*Number of enterprises*	*Employment ('000)*	*% of total manufacturing employment*
1930*	93,000	..	..
1968*	35,000	..	..
1971	38,621	196.9	..
1975	53,993	259.0	..
1981	60,695	281.8	4.9
1982	56,207	260.7	4.9
1983	53,067	227.2	4.5
1984	89,892	311.7	6.2
1985	98,453	323.7	6.5

Note: 1984 & 1985 figures are based upon a revised register of businesses and are not directly comparable with previous years

Source: Business Monitor (PA 1002). * Data from Prais (1976)

Table 3.2 VAT-registered businesses, 1979-1986

Year	*Stock (million)*	*increase (%)*
1979	1.288	..
1980	1.304	1.2
1981	1.336	2.5
1982	1.356	1.5
1983	1.390	2.5
1984	1.419	2.1
1985	1.439	1.4
1986	1.468	2.0
1979-1986	..	14.0

Source: British Business 31.7.87

Schumacher struck a chord of popular opinion, and his Christian-socialist vision of the future inspired many, especially in the alternative/co-operative movement. However the current widespread enthusiasm for small firms has taken on a different character:

> there is no doubting that the small man commands the centre of the stage. No longer reviled as a tax dodger or exploiter of cheap labour, small business exemplifies most of the current government's ideals, whether small shop (thrift, independence) or fast expanding Thames Valley electronics concern (risk taking, ambitious, profit orientated)[10].

Previously the British small firm sector had been amongst the smallest in Europe[11], and had declined over a long period, but over recent years the number of small firms has been growing rapidly. Small firms are seen as part of the solution to the economic crisis and the restructuring of capital, but not in the direction that Schumacher hoped for. Bollard has described their role as follows:

> The value of the small firms' sector revolves around the fact that they provide the competitive spirit that a market economy needs for efficiency. They provide an outlet for entrepreneurial talents, a wider range of goods and services to the consumer, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries. They allow an economy to be more adaptable to industrial change through the continuous and less painful process of small firm births and closures, with new start-ups embodying new technologies, skills, processes or products. These arguments for efficiency in the wider economy are frequently cited by Japanese policy makers[12].

Other advantages often cited[13] are that small firms create new jobs, aid in the regeneration of inner cities, and provide a harmonious working environment, thus reducing strikes and absenteeism.

This picture of small firms contrasts with the now-fashionable view of large firms as anchored in the economy of the past, risk-averse, inflexible and, because of their capital-intensive strategies, negative contributors to employment.

Small Firms, Crisis & Restructuring

Much of the rhetoric surrounding small businesses focuses on the supposed independence of the small business owner. Support for them is presented as part of a return to *laissez-faire* capitalism and Victorian values, where hard work and entrepreneurship receive their just

10 *Financial Times 12.6.84*

11 *British Business*

12 *Bollard, 1983, p.295.*

13 *see e.g. Rainnie, 1985b; Bolton 1971*

reward. The reality, however, is quite different, and small businesses in practice have very limited independence. Bollard[14] has acknowledged - despite his support for small firms above - that large firms are in the dominant position, and largely determine the state of play for small firms. in order to understand this relationship, the rise of small firms, and their new found role, must be examined in the context of the restructuring of capital taking place.

The changing relationship between small and large firms has been examined in detail by Murray, Rainnie, and Schutt & Whittington[15]. The drive towards the decentralisation of production is located in the economic crisis accompanying the end of the 'long post-war boom' which has afflicted the major western capitalist economies. Murray argues that the impetus for this change came in the early 1970s with increased labour militancy, increased competition in world markets, and the slump of 1974.

> Decentralisation was then grasped on initially as a short term strategy aimed at evading the labour movement's advances, in that it attempted to compensate high labour costs and low flexibility in the large and medium factories by directly creating or putting work out to small production units, artisans and domestic workers, where the influence of the unions was minimal ... it has been used in conjunction with automation to begin to dismember the large factory proletariat through the increasing division and dispersion of production into small plants and into the sweatshop where accumulation is unrestrained by organised labour[16].

However there is more to small firms' role than undermining labour militancy and the power of trade unions. Poulantzas[17] claimed that small firms tend to operate in low profit/high risk sectors, thus acting as service agents for large corporations. Small firms provide flexibility for the operations of larger ones, absorbing fluctuations in the level of output and employment and the deployment of the workforce, fluctuations which Schutt & Whittington argue are magnified as a result of crisis and restructuring. This can be related to Friedman's[18] analysis of centre-periphery relations within large companies, whereby the concessions and relatively secure employment won by workers in the centre are balanced by a much greater exploitation of less-skilled peripheral labour[19]. These relations are now increasingly being transferred *across* firm boundaries, as large firms pursue strategies of

14 Bollard, 1983.

15 Murray, 1983; Rainnie, 1985a,b; Schutt & Whittington, 1984.

16 Murray, 1983, pp.92-3.

17 Poulantzas, 1975.

18 Friedman, 1977.

19 The depiction of employment as skilled/less skilled is of course not purely a technical description but also relates to who is doing certain jobs. Therefore jobs held by women and black workers are more likely to be designated as less/un-skilled than those held by white males, whatever their technical demands.

fragmentation. Peripheral workers are now more likely to be employed by small firms in subcontracting or supply relationships, and are much more exposed to the fluctuations in economic activity of which they bear the brunt. In addition the status of central workers is being undermined as large capitals contest control over the labour process, introducing technology which reduces the need for central workers' established skills. The resulting structure bears an increasing resemblance to the dual economy of Japan.

One characteristic of capitalism in crisis is the bankruptcy of individual capitals, as attempts are made to overcome the tendency of the rate of profit to fall. In this process the average rate of profit for remaining capitals can increase, as capitals that fail bear the brunt of the costs of crisis. Rainnie points out that the tendencies towards concentration and centralisation of capitals have had two major influences on the likelihood of crisis following previous paths. He cites Harman, who argues that:

> while there were a large number of relatively small firms, some could go bust without damaging others. But with few very large firms, the destruction of any of them can do immense damage to the operations[20].

Fragmentation of capitals and the rise of small firms therefore have a role in alleviating this tendency. Schutt and Whittington argue that fragmentation at a time of high demand risk takes one of three forms: decentralisation, detachment and disintegration:

1) *decentralisation* of production: large plants are broken up, but retained under the same ownership, by hiving off into smaller plants or by creating new subsidiary companies. Such a breakup critically undermines the power of trade union organisation and promotes capacity flexibility through closures;

2) *detachment*: large firms cease directly to own units, but retain revenue links with them, i.e. licensing or franchising. The latter has become increasingly popular in certain areas (e.g. fast food, printing, cleaning), and ensures a steady low risk revenue for the franchisor, while adjustments to fluctuating demand and control over labour are the responsibility of entrepreneurs subject to market discipline;

3) *disintegration* of production and innovation: large firms cease to own units of production or innovation, but retain control through market power (especially in the case of vertical disintegration) or, latently, through the power to repurchase the units. Management and worker buyouts are examples of this process. Disintegration through sub-contracting

20 *Harman, 1981.*

has always been important in certain industries, taking work out of the stable and expensive internal labour markets of large firms into the insecure, low-waged and non-union employment of small firms. Friedman[21] has detailed the use of subcontracting in coping with cyclical demand in the motor industry, and Rainnie[22] has done the same for the unstable clothing industry. The present government is extending the process from the private to the public sector, moving work from stable and well-organised employment to small non-unionised firms in highly competitive markets.

Whereas previously there might have been resistance by trade unions to these changes, their power to do so now has been greatly undermined by high levels of unemployment and legal curbs on their activities.

The example of the Italian clothing firm Benetton illustrates two of these processes.

> Their clothes are made by 11,500 workers in Northern Italy, only 1,500 of whom work directly for Benetton. The rest are employed by sub-contractors in factories of 30-50 workers each. The clothes are sold through 2,000 tied retail outlets, all of them franchised. Benetton provide the designs, control material stocks, and orchestrate what is produced according to the computerised daily sales returns which flow back to their Italian headquarters from all parts of Europe. Similar systems are at the heart of the success in the UK of the 'new wave' clothiers - Burton's, Next and Richard Shops.[23]

The increasing role for small firms in the advanced capitalist economies cannot be analysed as the result of unexplained changes in the tastes and preferences of entrepreneurs. More frequently, the rise of small firms is explained in terms of changing technology, or changing factor costs, which has an impact on the the appropriate size of firms for technically efficient production[24]. This approach is located in the 'social democratic' school of thought outlined earlier, and such technological changes remain unexplained. Instead this development must be located in the strategy adopted by capital as part of the restructuring process. Small firms and large firms do not just co-exist side by side. Friedman notes that "the steady profits of large firms ... depend on the instability of profits and wages of small firms and unprivileged workers in an unplanned system such as capitalism"[25]. In a period of crisis, with reduced profitability, then an extension of small firms' scope of operation and increases in their number is a crucial element in ensuring the survival of larger firms.

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21 *Friedman, 1977.*

22 *Rainnie, 1985a.*

23 *Murray, 1985, p.30.*

24 *e.g. Bollard, 1983; Bannock, 1981.*

25 *Friedman, 1977, p.106.*

There is clearly little independence for small firms in this set up. According to Rainnie:[26]

> Scase and Goffee quote Bechhofer and Elliott as arguing that 'small capital is menaced from above and below....in all circumstances it is a dependent stratum, dependent first and foremost on the dominant groups and institutions. It is their decisions, their interests that do most to affect the size and circumstances of the stratum'. And Birley agrees, arguing that 'there are very few independent small industrial firms; independent in the sense of being able to determine their own destiny'[27].

Therefore we can see that given the relationship between large and small firms, possibilities for accumulation in the latter are severely restricted by their relationship to large firms.

The question that this raises for present purposes is whether the situation any different for co-operatives? It is important to bear in mind that the recent upsurge of interest in co-operatives parallels the resurgence of small businesses in general. To what extent can small firms contribute permanent and secure activity independently of large firms? For co-operatives, to what extent can they choose paths independent of the constraints imposed by relations with large firms? In approaching this problem, Schutt & Whittington argue that small firms can fit (approximately) into one of three classifications, according to small firms' relationships with large firms, i.e. with commercial and industrial capital:

(a) *dependent* - complementary and servicing the activities of large firms, for instance engaging in sub-contracting.

(b) *independent (i)* - competing with large firms often on the basis of intense exploitation of labour on antiquated equipment.

(c) *independent (ii)* - operating in niches that consist of small local/specialised markets ignored by large firms.

Schutt & Whittington comment that 'although this categorisation is crude, it does help distinguish the separate forces that underlay the dynamics of different small firm sectors'[28]. The way in which restructuring affects small firms is largely determined by which category they fall into.

The classification is equally applicable to co-operatives. Rainnie[29] notes that:

26 *Rainnie, 1985b, p.152.*
27 *Birley, 1980, p.23; Scase & Goffee, 1982; Bechhofer and Elliott, 1981.*
28 *Schutt & Whittington, 1984, p.8.*
29 *Rainnie, 1985b, p.163.*

> Co-operatives exist in the same market as other small businesses and are subject to the same rules. In the final analysis they have to compete to survive. And they have to survive in a world that is not of their own making. In other words, they have to live in a world dominated by large capital and therefore must fit into one or other of the three categories Schutt & Whittington (*op cit*) devised for *all* small businesses. Co-operatives have no choice about this. Alternative internal management structures do not affect this position.

From here we can draw parallels with the Webbs' analysis in 1914. They too categorised small firms, although some changes are necessary in view of developments in the British economy since then. In 1914, as today, most co-ops were small, both in Britain and internationally, and the Webbs first of all examined the sector of small capitalists, outside of large scale factory organisation. Apart from a small number of individual craftsmen "needing practically no apparatus or material, or not more than they can themselves easily produce"[30], they found that "individual producers" were subject to various degrees of economic dependence on outside capital. Many were "continuously dependent for their wares, their raw materials or their tools on the wholesale dealers or others"[31]; the most numerous, however, were also dependent on commercial capital for their markets: "those craftsmen who work 'for the trade', and who are dependent, both for buying their raw material and buying or hiring their instruments of production, and also for selling their manufactures products, on wholesale or retail traders"[32]

For those individual producers dependent on outside capital, as a result of the particular circumstances of this dependence they reproduce the worst elements of capitalism in the 'sweating system'[33]. The Webbs note that it is in these sectors that most co-operatives were located. That is, the desire to escape from that dependence and its consequences gave the impetus for individual producers (mostly craftsmen) to form co-operatives. They suggested that, as in the much later quote from Rainnie above, co-operatives would reflect the market pressures which characterised the sweated sector, along with small firms in similar positions. They recognised economic dependence of small firms in general as a problem, but was for co-operatives it led to additional pressures for degeneration.

30 Webb S&B, 1914, p.2.
31 ibid, p.3.
32 ibid, p.3.
33 ibid, p.2.

Working Conditions in Small Firms

The conditions of work in small firms today have received little attention either in the media or in academic research. For instance, the *Guardian Small Business* page largely reviews the availability of finance and assistance for start-ups and the means by which small-scale capitalists have achieved success, rather than what it is like to work in small firms. The conventional wisdom is that the work experience in small firms is superior to that in large enterprises; working relationships are supposedly more harmonious, workers are meant to feel less alienated and more a part of the business, more committed to a common identity and perception of success (noticeably similar to the advantages claimed for co-operatives!).

This vision of small firms harks back to that of Schumacher, that somehow the antagonism between capital and labour can be overcome in a small firm, and is based on an idealised vision of industrial harmony. The reality of a weakened workforce both within small firms and on the wider level is hinted at in the following remark from Bannock:

> Labour relations are less of a problem in small firms than large and when individually they run into difficulties there are less painful consequences for the rest of society[34].

Such a view justifies a reduced role for trade unions in small firms. As Prince Charles has said:

> Trade Unions arose in the first place - quite rightly - through combinations of people because managements didn't show enough concern. Then it was a case of exploiting the labour. But if you don't exploit people, if you bring them in and make them feel part of things, there is less need for the extra layer of trade union organisation within an institution to reflect the workforce's views, because you're working with them. This is another argument for doing things on a small scale[35].

Assertions that trade unions are less relevant in small firms are essentially political and have nothing to do with the reality of working in small firms. Bluestone and Harrison comment that

> there is good evidence that, relative to larger entities, small businesses (certainly those that employ twenty or fewer workers, pay low wages, offer unstable or only part-time jobs, often practice race and sex discrimination in hiring and wage policy, and exhibit arbitrary or capricious discipline over workers.[36]

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34 Bannock, 1981, p.10.

35 Sunday Times, 22.11.81.

36 Bluestone and Harrison, 1982, pp.221-222.

Working conditions in particular sectors where small firms are prominent will receive more detailed attention in later chapters. Friedman's analysis of the status of central and peripheral workers suggests that the latter will enjoy poorer conditions - less skilled and more monotonous work, less control over work, less stability of employment, higher rates of unemployment and lower pay[37]. To the extent that small firms occupy this peripheral status relative to large firms, it is to be expected that workers in small firms would tend to be in this position. In a study of small firms in the clothing industry[38], Rainnie, found that the reality behind the facade of peaceful industrial relations within small firms, consisted of a workforce in a relatively weak position *vis a vis* capital. Unionisation is lower, not because there is less need for trade unions (as Prince Charles would have us believe) but because trade unions find it difficult to gain a foothold when workplaces are scattered and employers are hostile to outside interference. The Bolton Report found that wages in small firms tended to be lower than those in large firms for equivalent jobs, and Rainnie points out that according to the Low Pay Unit, industries characterised by low pay tend to be dominated by small firms. And the GLC, in an attempt to counter the prevailing enthusiasm for small firms[39], found that they tended to predominate in technologically backward and low productivity sectors, with a limited capacity to generate a reinvestible surplus.

Murray has compared the situation with that of Japan:

> In Japan the resulting dualism is particularly sharp. On the one hand, there is a central core accounting for a third of the workforce (with the celebrated corporate welfare systems, high skill levels and jobs for life). On the other, there is a peripheral sub-contract and sweated economy, casualised, low paid, weakly organised, and restricted to a grossly inadequate public welfare system[40].

The restructuring process of which the rise in small firms is a part is largely serving the interests of capital at the expense of those labour. In part, the transfer of production from large to small firms represents an attack on the gains previously made by organised labour. Undermining the collective strength of workers in large firms by dividing them up may permit increases in both absolute and relative surplus value as workers in small firms lack protection against increases in exploitation. But there is more to the process than a simple transfer of production. The nature of work and employment in small firms is different;

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37 Friedman, 1977, pp.110-117.

38 Rainnie, 1985a.

39 GLC, 1983a.

40 Murray, 1985, p.30.

increasing the proportion of employment which is insecure and unstable gives large capitals the flexibility to deal with fluctuations in demand and production, and so maintain or increase their profitability at a time of crisis.

CONCLUDING REMARKS

The widespread support which small firms have been receiving is based upon very dubious foundations: their rapid growth has been part of capital's response to crisis, and the fragmentation of production which is involved in this restructuring is essentially to promote conditions where profitable accumulation can be restored for capital as a whole. There is no reason to believe that small firms will be effective in providing employment, certainly when judged in relation to the massive job losses in large companies in recent years. Furthermore, for those who do obtain work in small firms, their working conditions and wages are likely to be worse than for comparable workers in large firms, and the collective strength of workers to resist capital's demands is undermined.

Although changing economic conditions over the past few years (since 1980) have favoured small firms, the nature of their relationship to the dominant forms of capital means that they are highly vulnerable when economic conditions change. This is particularly the case for individual small firms. Frequently what matters to large firms is the existence of many small firms; if some of these go bust this is of no importance, as long as there are others to take their place. If the GLC's analysis is correct - that small firms tend to operate in low productivity sectors and have a limited capacity to generate a reinvestible surplus, then their ability to withstand economic fluctuations and changes will be limited, because of their underlying commercial weakness. This is supported by Storey *et al*'s findings that the most reliable guide to those small firms which demonstrate the best commercial performance is the amount of retained earnings. This is to be expected: firms which can accumulate from re-invested profits will be in a stronger position to compete and secure an advantage over rivals, and will be less prone to the economic weakness which afflicts small firms in general.

In terms of their economic relationships, co-ops and small firms have many similarities; the changes which have led to the growth of small firms affect co-ops also. However, co-ops will tend to start off in an even weaker position than small firms in general, and face a continual conflict between the need to compete and survive commercially and the desire to restructure production in favour of labour.

4. Research Issues and Methodology

INTRODUCTION

In choosing a research methodology there is even greater pressure to adopt an orthodox approach than in theoretical analysis. Whilst alternatives to neoclassical analysis (although constantly under attack) are reasonably well established in the theoretical sphere, the same cannot be said for alternatives to orthodox research methodology. Developments at the level of philosophy and theory have made few constructive contributions on the subject of method in empirical research, and texts on method have ignored developments at the philosophical level[1]; while philosophical critiques of orthodoxy have been accepted in principle they have failed to make much difference in practice[2]. However, as the positivist school of thought in social sciences generally and economics in particular has increasingly come under attack, the whole question of the link between methodology and politics is on the agenda again. The problem for empirical researchers is this: if we adopt a marxist or any form of radical theoretical analysis, can we continue to use the usual empirical methods of hypothesis formation and testing, or do philosophical critiques imply that these methods must be replaced by different ones? Does rejection of orthodox theory imply rejection of the orthodox research methodology associated with it? This is a complex issue, which I attempt to explore in this chapter. It has led many marxists to fear that any kind of empirical research would inevitably be tainted by empiric*ism*, and as a result there has been a 'withdrawal from empirical research and a turning inwards towards a continual reconstitution of abstract theoretical concepts'[3]. This chapter begins with a critique of the empiricism associated with orthodox economics and then presents a realist alternative. In the second and third sections I attempt to develop this to provide the methodological basis for the research in this thesis.

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1 Even at the Open University - where social science courses demonstrate a far wider approach and appreciation of competing and conflicting ideologies and views than is generally the case - the Research Methods MSc. course (DE801) remains an exercise in unrestrained positivism.

2 Sayer, 1984.

3 Sayer, 1981, p. 6.

ECONOMICS AND ISSUES IN THE PHILOSOPHY OF SCIENCE

Amongst all the social sciences in the twentieth century, it has been in economics that the link between methodology and politics has been most forcefully denied. This has only happened under the dominance of neoclassical theory, and has not always been the case. The classical economists accepted the links between the two, notably Ricardo's decisive intervention in the debate over the Corn Laws in the early nineteenth century, on the basis of his Theory of Rent. The link was of course fundamental to the work of Marx later in the century.

The subsequent rise of empiricism and the philosophy of logical positivism, however, brought in its wake the so-called 'quantitative revolution' and the development of 'value-free' analytical techniques, which had the aim of making a separation between theory, methodology and policy. Mainstream economics - seen as positive (rather than normative) economics - is viewed as a scientific discipline providing answers to technical questions regarding the running of the economy. Thus economics was distinctly separated from politics, with economists leaving politicians to resolve the distributional implications of alternatives in economic policy. But however 'positive' the economic analysis, economists' prescriptions depend on the basic assumptions made about the nature of society and of social activity, and these are not independent of value judgements. The resolution of technical questions about the workings of the economy - the impact of a particular change in an economic variable - depends on the initial conceptualisation of the economy and its workings. Thus, economics based upon individuals entering into free exchange in a stable and self-regulating market economy will produce different prescriptions to economics based upon class relations in an inherently unstable capitalist system. By failing to undertake economic analysis in the context of a mode of production, neoclassical theory has value judgements built into it; it is in itself a value judgement to separate out the relatively peripheral 'decisions' bourgeois economics allows into its field of vision, from questions relating to the basis of the mode of production that creates the very constraints necessitating these 'choices'[4]. It is this delusion that exposes the ideological basis of neoclasical economic theory. Furthermore, all economic questions have a policy - and hence a political - dimension, and in practice economists find it impossible to stand back from pronouncing on

4 *Linder 1977, p. 9*

the way to achieve improved states of society. This undermines the supposedly objective or value-free nature of the subject.

Positive economics is considered by its proponents as a 'scientific' discipline, on a par with the natural sciences. This view has been clearly stated by Milton Friedman:

> Positive economics is in principle independent of any particular ethical position or normative judgements. As Keynes says, it deals with 'what is,', not with 'what ought to be.' Its task is to provide a system of generalisations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an 'objective' science, in precisely the same sense as any of the physical sciences.[5]

This analogy with the physical or natural sciences is crucial for positive economics; besides imparting an epistemology (empiricism), it gives it an appearance of academic respectability and professional credibility; it is a 'serious' science, somehow above the melee of competing value judgements. This is particularly ironic, given that the failure of neoclassical theory to offer a serious analysis of the workings of the economy means that any meaningful scientific work in this context is inhibited, confused and misdirected.

Empiricism and its problems

Positive economics rests upon a particular theory of knowledge, or epistemology, that of empiricism. The crucial tenets of empiricism have been described by Hollis & Nell:

> Empiricism is, negatively, the denial that anything can be known about the world *a priori* or without the benefit of experience. The history of the world, as an empiricist sees it, is the story of a series of states in which there happen to be patterns. Nothing must be as it is, no event must have any particular cause, no state must be followed by any one other state. Consequently we can never know a priori what will happen next and science has to progress by generalising from experience. Logic or reasoning alone cannot tell us which of infinitely many possible worlds we live in, nor which of infinitely many possible continuations from the present state will, in fact, occur. ... There is, therefore, no room for the idea that causal laws are in any sense necessities in nature. .... We can thus pick out two crucial tenets of empiricism: (i) claims to knowledge of the world can be justified only by experience; (ii) whatever is known by experience could have been otherwise.[6]

5 Friedman 1953, p. 4
6 Hollis & Nell, 1975, p. 4.

Therefore in positive economics, theory is intrinsically linked to empirical observation. From a set of initial assumptions, a set of hypotheses is generated which are open to potential empirical falsification (assuming that the process of logic is not being questioned, testing hypotheses is the same as testing the assumptions from which they are generated). The body of theory consists of those hypotheses which have not been falsified by observation; hypotheses are tested against the data of empirical observation - if they are not rejected they stand as generalised truths until rejected on the basis of new or different data. This follows Popperian criteria for scientific knowledge: that providing a theory can potentially be exposed to falsification through observation, the theory can stand as explaining how the observation was generated.

One crucial element of empiricism is the notion of the objectivity of facts, or that observation is theory-neutral. This view is widely held by neoclassical economists. Data, however, must be pre-conceptualised; social scientists who treat 'data' literally as 'given things' unknowingly take on board and reproduce the interpretations implicit in the data. In dealing for instance with wages, we must already have concepts of money, workers, and employment, and all of these presuppose a particular conception of society and social relations.

It is also clear that the criteria for accepting or rejecting theory is its predictive ability, not how 'realistic' the initial assumptions are. However, much of the attack on positive economics has been on this basis - criticising the 'unrealistic' assumptions used, such as that of perfect competition. Friedman however rejects such criticism:

> Such a theory cannot be tested by comparing its assumptions directly with 'reality'. Indeed, there is no meaningful way in which this can be done. Complete 'realism' is clearly unattainable, and the question whether a theory is realistic 'enough' can be settled only by seeing whether it yields predictions that are good enough for the purpose in hand or that are better than predictions from alternative theories. Yet the belief that a theory can be tested by the realism of its assumptions independently of the accuracy of its predictions is widespread and the source of much of the perennial criticism of economic theory as unrealistic. Such criticism is largely irrelevant, and, in consequence, most attempts to reform economic theory that it has stimulated have been unsuccessful[7].

Friedman was writing in 1953, when positive economics was perhaps at the pinnacle of self-confidence. However the neoclassical approach and its positivist foundations have been

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7 Friedman, 1953, p. 41.

severely shaken over recent years and no longer enjoy the unrivaled supremacy which they once did - at least on a philosophical level, if not on a practical level[8]. There are a number of inconsistencies in the application of empiricism to to social sciences, which derive from the assumption that social science is analogous to natural science. Empiricist methodology can only be justified - in its own terms - if this is the case.

One fundamental assumption behind the methodology of positive economics is that social phenomena can be analysed in the same way as physical phenomena[9]. This assumption cannot itself be tested by its own method. Suppose that there is an alternative economic theory which does not rely on empiricism. The methodology of positive economics cannot make a judgement between the theories, as in its own terms this is a conceptual (metaphysical) and not an empirical question. It is not potentially falsifiable because in this case it is not known by experience - it is assumed. If it was tested empirically and falsified by observation, then the entire methodology of the test would have been invalid anyway. The assumption that empiricist methodology is appropriate, is not scientific by Popperian criteria; in the empiricist schema it is not potentially falsifiable. It is therefore circular in its justification of its own method: the methodology is correct because the methodology is assumed to be correct.

Therefore an inconsistency is exposed within empiricism: there must be at least one true theoretical statement independent of the result of testing against experience, but as we have pointed out above, empiricism assumes that there are no *a priori* irrefutable truths. Or, as Samuelson says:

> If a thing has *a priori* irrefutable truth, it must lack factual content. It must be regarded as a meaningless proposition in the technical sense of modern philosophy.[10]

There are other fundamental assumptions of positive economics with the same status. Consider neoclassical theory, with the fundamental category of analysis being individual economic agents - producers and consumers. Counterpose this with an alternative which views classes as the fundamental category. One approach views profit as an exchange, the other views profit as exploitation. Neither approach counts as a 'scientific hypothesis' by the

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8 Green, 1977; Hollis & Nell, 1975; Bhaskar, 1979; Sayer 1984.

9 Although there increasing doubts in the philosophy of science about traditional views of scientific objectivity and progress - for instance to do with the theory-neutrality of observation; arguments about whether social science should be like natural science no longer take place on the basis of agreement about the nature and methods of the latter (Sayer 1984, p. 11).

10 Samuelson 1966, p. 1751.

positivist definition of the term - it is a conceptual rather than empirical point which cannot be settled by observation. Key assumptions and categories of each theory thus fall outside the scope of empirical testing of rival consequences.

Bhaskar[11] denies that the natural and social sciences can be equated in this way and points out that phenomena in the social sciences only manifest themselves in 'open systems'; that is in systems where invariant empirical regularities do not hold. Bhaskar holds the realist view, that mechanisms and their conditions are independent and hence that causation need not imply regularity in patterns and sequences of events. In the natural (physical) sciences and in theories of the orthodox philosophy of science, methodology presupposes closed systems, with empirical regularities. Because of this they are totally inapplicable to the social sciences, or, if attempts are made to apply them the results are disastrous.

Therefore, neoclassical economics is unscientific by Popperian criteria, for four reasons stemming from the presentation of theory:

- in terms of unobservable variables, without any clear means of relating the different (measurable) variables to those in the theory;
- in an equilibrium formulation - but there never is equilibrium;
- in a general functional form (e.g. Q=f(K,L)) without specifying the actual functional form to be tested;
- with unrestricted but unstated *ceteris paribus* assumptions.

Any testing of neoclassical theory in these terms is a test not just of the theory but also of the auxiliary assumptions, and effectively the theory itself is untestable.

As a result, the quality of prediction based upon neoclassical theory has been very poor. In order deal with this and bridge the gap between theory and the real world, the response has been to develop a more and more detailed and intricate (not to say unrealistic) set of assumptions. Advocates might see this as an increasing refinement and accuracy of the theory, but what it means in practice is that predictions are hedged by so many qualifications that empirical testing is virtually impossible. As a result, amongst neo-classicists the failure of predictions does not count as refuting neoclassical theories, but is

11 *Bhaskar, 1979, p. 127.*

met with a philosophical account of the function of *ceteris paribus* clauses[12]. "All to often, it would seem, the Popperian criterion for science .... that knowledge is only scientific when pursued critically in the face of observable falsification, is honoured in principle, not in practice."[13]

Bhaskar uses this to make a simple but powerful point:

> The real methodological import of the absence of spontaneously occurring, and the impossibility of artificially creating, closed systems is strictly limited: it is that the social sciences are denied, in principle, decisive test situations for their theories. This means that the criteria of the rational confirmation and rejection of theories in social science cannot be predictive, and so must be exclusively explanatory[14].

Natural phenomena and social phenomena

What is distinctive about the nature of the object in social science research which makes this point so crucial? Essentially it is that the relationship between subject and object in social science is different to that in natural science. [The 'subject' is the observer or investigator, while the 'object' is the thing being studied (in social sciences the object is 'society' or some aspect of it).] Sayer[15] explores the relationship at length, with the argument that in social sciences the subject is not separated from the object but part of it, contrasting the separation between researcher and object in a laboratory physics experiment.

One aspect of this interdependence is that the results or outcome of social science research affect the object under study (calling into question the traditional role or vision of a social scientific researcher). Sayer points out that in social sciences the situation regarding material intervention in the object is much more complex than in natural sciences, for two reasons:

- the unavailability of experiments makes it more difficult to use such material interventions for scientific purposes;

- social phenomena can be changed intrinsically by learning and adjusting to the subject's understanding. It is not just that social experiments may be deemed undesirable, it

12 *Hollis & Nell, 1975, p. 20.*

13 *Cole Cameron & Edwards, 1983, p. 78.*

14 *Bhaskar 1975, p. 128.*

15 *Sayer, 1984, chapter 2.*

is also that social phenomena are likely to be irreversibly changed by them in a way which does not happen with non-social phenomena, which learn nothing from being manipulated.

Sayer's second point is that social phenomena are concept-dependent; that is, what the practices, institutions, rules, roles or relationships are depends on what they mean in society to its members. Not only is physical behaviour important, but also the meanings behind the actions involved. Take for example the rapid rise in the number of co-operatives in Britain since 1975. We could endlessly observe the physical behaviour of people forming co-operatives and use every known statistical technique to process our observational data, but unless we understand the meaning of forming a co-operative to those in it we would have no idea of what was actually happening or what kind of action it was. This kind of understanding requires not the amassing of empirical data but a conceptual or philosophical analysis of the action and the rules implicit in it[16].

The first implication of the above is that such phenomena cannot be understood solely by observation, but only by combination of observation and explanation based on (*a priori*) theory. A second implication is that the orthodox view of causation as regular and predictable occurrences of an event also no longer stands. This refers to Bhaskar's point earlier : that the criteria for rejection or acceptance of theories in social science must be exclusively explanatory. Empiricism cannot help us explain the phenomenon in question, and so an alternative epistemology is needed.

A Realist view of causation

Rather than viewing causation as a discrete event (cause and effect) realism refers to the causal powers of an object. Causal powers exist and are a characteristic or capacity of the object in question whether or not they are exercised. For instance, an unemployed person has the capacity to work, even if they do not actually work; a bomb has the capacity to destroy even if it is not set off. On this view then a causal claim is not about a relationship between things or events but about what an object is like and what it can do; it does not say that it will do it in any particular situation. Such causal powers are therefore an attribute of objects independently of any pattern of events.

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16 Winch, 1956.

This concept of causality is linked to the concept of internal or necessary relations, as distinct from external or contingent relations. External relations are neither necessary nor impossible; for instance, the relation between a person and a book is external, in the sense that either object can exist without the other. It may be that the person is reading the book, but they are not necessarily related; the relation is contingent on particular circumstances. Contrast with this the relation between a co-operative and its members, which is internal or necessary - what one object is, is dependent on its relationship with the other, that is, a co-operative cannot exist without its members and vice versa. Other examples are landlord and tenant, master and slave - the existence of one presupposes the existence of the other.

The nature of an object and its causal powers are necessarily related - causal powers exist as a result of the nature of an object. However, whether a causal power is actually manifested on a particular occasion depends on the presence and configuration of contingent conditions. Although a cloud has a causal power or liability to produce rain, whether or not it does actually rain is dependent on a range of other meteorological conditions separate from the presence of the cloud. Although an unemployed person has the power to work, whether or no they actually do might depend on whether there is a job available for them. Although causal powers exist independently of their effects, the observable outcome of an object's causal powers depends both upon this necessary relation and the object's contingent relation with external conditions; it is not possible to observe the causal powers in isolation from these contingent conditions. Therefore the relationship between causal powers and their effects is not fixed, but contingent.

This view of causation and effect differs crucially from the empiricist view, both in the perceived nature of causation and empirical outcomes. Most real world processes involve the operation of several causal mechanisms which may only be contingently related. Therefore the operation of a particular mechanism may have different effects, depending on conditions, and different mechanisms may produce the same empirical result. The resistance of workers and trade unions to a factory closure can have a variety of different results - the formation of a co-operative, takeover of the factory by another firm, nationalisation, or it may not prevent closure at all. Conversely, a particular effect can have multiple causes - unemployment amongst black people is due to both their class position and to racial discrimination.

Therefore there are no necessary empirical regularities as a result of causal powers. Typically (in the orthodox account at least) causation is associated with regularity, but in the realist view the exercise of causal mechanisms is often unclear from patterns of events. Causation has nothing to do with the number of times an event has occurred or is likely to occur, and processes of causation cannot be discovered from observing regularities. Instead discovery of what a given causal mechanism will do requires a different sort of investigation.

In particular, theory cannot be assessed on the basis of its predictive ability: empiricists consider that the theory 'If A then B' can be accepted or rejected on the basis of observing whether or not B occurs. Realists are interested in more than the recognition that A has some effect(s) and produces change; what is important is what it is about A which causes these effects, what are the processes by which A produced B. Theory is essentially about explanation rather than prediction. Crucially though explanation is not just about the immediate causes of events, but includes reference to the necessary conditions for the existence of causal mechanisms. It is all very well noting the association between the sharp rise in the number of co-operatives in the 1980s and the formation of Co-operative Development Agencies throughout the country, but unless we note the necessary conditions leading to both of these developments - lengthy recession and high levels of unemployment - then our understanding of the process of co-operative formation will be minimal.

The contrast between empiricism and realism can be illustrated with reference to 'laws of tendency' in marxist theory. The most famous of these is the Law of the Tendency of the Rate of Profit to Fall, and its Counteracting Influences. This concept of 'tendency' has been interpreted by many non-marxists to be an empirical prediction that there will be observable falls in the rate of profit as capitalism develops. That this has not happened (as Marx is considered to have predicted) is taken to be a rebuttal of this central tenet of marxist political economy. Clearly this interpretation is based upon empiricist epistemology, and so not surprisingly the interpretation is false. Marx presented the Law as a mechanism which existed necessarily by virtue of the nature of capital (the 'Law As Such'), but whose effects would be mediated in practice by other mechanisms and particular conditions (the 'Counteracting Influences')[17] there were no predictions about what would happen empirically to the rate of profit itself. The only prediction made was that the contradictory

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17 Marx, 1959, chapters 13 & 14.

operation of the Law and the CI's would be manifested as crises of accumulation; this was not an empirical generalisation about a regular sequence of events but an explanation of the crises which were endemic to capitalism.

This approach also provides us with an alternative interpretation of co-op degeneration, another concept with its origins in marxist economics which has been widely misinterpreted from an empiricist position. I noted in chapter 2 that degeneration could not be perceived as a deterministic iron law, but had the status of a tendency. This interpretation can be more rigorously presented in terms of the preceding argument.

Co-ops, operating in a capitalist economy, necessarily possess the causal power (or causal liability) to degenerate, but whether or not they will degenerate in practice will depend upon the impact of a variety of contingent conditions and counteracting influences which cannot be predicted in advance. From a marxist perspective, degeneration is not a necessary empirical outcome of co-ops' existence; it is degenerative pressures on co-ops which are a necessary condition of their existence in a capitalist economy, although they can be offset. All we can say at an empirical level is that co-ops will experience conflict between their own objectives and those which are - more or less sharply - imposed upon them by the need to compete and survive. We say nothing about the outcome of this conflict, because it will vary depending on the contingent conditions operating in particular circumstances. What we can say is that co-ops can no more escape this conflict than firms can escape the conflict between workers and capitalists, although in both circumstances its effects and severity may be mitigated.

PRACTICAL RESEARCH ISSUES

Marx's concept of a science was that of a process whereby knowledge was produced by going behind the superficial appearance of things so as to understand the hidden, underlying phenomena. This involves producing concepts which are appropriate to the hidden phenomena, and the process by which these give rise to observable phenomena and experience. For Marx, what was generally accepted as a science was not necessarily 'scientific', for scientific beliefs - like all others - were subject to material and ideological influences. The key to Marx's scientific method was its objective basis in material conditions.

Clearly neoclassical economics is not a science by marxist criteria; it is concerned solely with the appearances of capitalist society and fails totally according to the criterion of explanation rather than prediction; as such it becomes nothing more than an ideological smokescreen geared to concealing (rather than revealing) underlying economic phenomena.

What are the implications for empirical research of adopting a marxist perspective? Disdain for knowledge based upon mere appearances should not lead to a withdrawal from empirical research. Indeed, marxism relates fundamentally to the real world and must be informed by analysis of concrete situations. For D. Sayer, 'marxism is a science whose object of analysis is productive forms, and whose method is empirical investigation'[18], and after all, *Capital* itself makes extensive use of empirical work.

The question then is what form should empirical research take, and how should it be carried out? It clearly has to take a different approach to that of orthodox empiricist research, but for researchers there is little guidance on the specifics of how it is carried out. General statements provide a starting point, for example:

> the observable characteristics of capitalist society must be explained in terms of unobservable structures and mechanisms in such a way that these latter explain both how and why the observable characteristics take the particular forms that they do[19].

The objective of research can be seen as contributing to the understanding of causal mechanisms - the *necessary* properties of objects - and how they operate in particular contingent conditions. Thus research integrates both theory and empirical work. More specifically there are perhaps three distinct elements to the process:

- investigation of actual, concrete events (phenomenal forms);
- theorising the nature of underlying/hidden mechanisms through the process of abstraction and reasoning;
- interpretation of the links and processes whereby mechanisms give rise to apparent phenomena.

This is a difficult task; operationalising marxist concepts, and relating these at different levels of abstraction, and to theoretical debates has caused problems to many researchers.

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18 Sayer 1979.
19 Mohun 1979, p. 267.

An important question to be addressed is how exactly are empirical findings to be interpreted. Appearances themselves do not reveal the nature of underlying mechanisms, for they incorporate the impact of both those mechanisms and of any contingent conditions which may be operating at the same time. However, this means that the exercise of causal mechanisms is often unclear from patterns of empirical events, as contingent conditions can operate in all sorts of ways; and counteracting forces may override and conceal the effects of a particular mechanism. It is also important to clearly specify the relationship between abstract theoretical categories and observable objects; the obvious example is theoretical debate at the level of values, which are not directly observable, although the effects of mechanisms involving values are everywhere observable.

The same applies to co-ops in a capitalist economy, which possess the causal power (liability) to degenerate. However degeneration is an abstract concept, a causal liability which is only manifested in association with contingent conditions, and can take various forms and degrees. There are four main forms (1) poor commercial performance (2) the subordination of co-op objectives to commercial objectives (3) conflict within the co-op over the contradiction between the pursuit of co-op and capitalist objectives, and (4) the emergence of internal class divisions - through the employment of wage labour, or the encroachment of capital directly through external share ownership.

Previous empirical research on British co-operatives

Previous research on the performance of co-operatives has generally been of one of three kinds. The first is in the empiricist tradition of neoclassical positive economics. Using some aspect of theory, hypotheses are generated which are amenable to empirical falsification. Data is collected on a variety of relevant variables for a number of co-operatives, and used to statistically test the hypotheses which have been generated from theory. An example would be the testing of Vanek's[20] theory concerning the financing of co-operatives - that a collectively financed co-operative will under-produce and under-invest relative to its comparable capitalist 'twin'[21]. Alternatively a rather more general hypothesis is set up, such as 'co-operatives are more (or less) efficient than comparable capitalist firms', or 'employee participation has a positive influence on productivity', and the regression estimation of a

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20 Vanek, 1971.

21 Jones & Backus 1977; see Chapter 1

production function carried out to confirm or reject this hypothesis[22]. This approach dominates work by economists on worker co-ops (as it does empirical economics generally), even in many socialist countries.

The second approach is that of the behavioural school. This concentrates upon purely empirical case studies of individual co-operatives, and tends to place less emphasis on analysis of why particular events took place.

More recently, researchers have focused on setting the experience of individual co-operatives within a wider framework which could take account both of underlying capitalist social relations and of the broader context of shifts in the national and international political economy. Notable examples are Clarke's and Fairclough's, case studies of the Scottish Daily News and Triumph Meriden co-operatives respectively[23], which are firmly located within an analysis of the political economy of British capitalism, and Bennett's examination of the performance of three sectors of older British co-ops[24].

In the first type of research, the analytical categories adopted tend to be purely descriptive rather than causal. If derived from neoclassical theory, then the main causal influence on the performance of co-operatives - their interrelation with a specifically capitalist economy - is necessarily excluded from the research hypothesis, as it is from the theory. Alternatively, a general estimation of a production function runs into two other problems. Firstly, the categories of analysis tend to be derived from relationships of correlation or association rather than explanation. This can lead to a problem with regression estimation: the validity of this technique depends on the regression equation being correctly specified i.e. the independent variables must be a full and complete specification, in the correct functional form, of the causal determinants of the dependent variable. In practice this requirement is rarely met in econometrics, and although there is disagreement amongst econometricians as to the implications of misspecification of functional form, virtually all activity in econometrics consists of attempts to overcome the problems caused by misspecification.

In general this type of research concentrates on a very narrow and formal interpretation of the causal determinants of performance. For instance, it is likely that poor performance is in part due to undercapitalisation; what it does not do is analyse the reasons for that

22 *see e.g. Estrin, Jones & Svejnar, 1984; Defourny, Estrin & Jones 1985.*

23 *Clarke, 1983; Fairclough, 1986.*

24 *Bennett, 1984.*

undercapitalisation. Shortage of capital for co-ops needs to be located in the practices and attitudes of capitalist financial institutions, and the lack of access to own capital for the type of people who form co-ops. Orthodox research focuses on associations between internal characteristics of co-ops and performance - not looking at reasons for co-ops being the way that they are. The tendency is to assume that the performance of individual agents (co-operatives) is the result of attributes of or decisions taken by those agents. As with neoclassical theory, the specifically capitalist nature of the economy is not recognised, and there is no political analysis of the position of co-operatives under capitalism. It follows the neoclassical tradition of economics as a value-free science, merely making judgements on the basis of degrees of commercial 'efficiency'.

Some such work has now moved away from a rigorous specification of hypotheses derived from theory, to be tested in the tradition of positive economics[25]. There are two reasons for this which reflect the general points made earlier (i) the theory does not always generate testable hypotheses and (ii) institutional conditions assumed in the theory do not apply in practice. The task then becomes a search for correlations or causal relationships which might throw light on whether or not predictions from theory are borne out in practice. This is not 'scientific' in the positivist sense, and although it potentially represents a step forward, such analysis remains confined by the continuing reliance on the neoclassical framework. Statistical correlations and regressions may show interesting and useful results, but unless results are analysed within an appropriate conceptual framework - that is, in which the economy is conceptualised as capitalist with specific social relations - then they are unlikely to contribute to explanation and our understanding of the processes affecting co-ops.

Behavioural research suffers similarly from a lack of political analysis. Whilst these studies can offer useful background information and empirical details, they fail in any other intent, particularly explanation, because they do not locate individual co-operatives within the social and economic relations specific to a particular capitalist economy. Consequently one characteristic of these behavioural studies is a preoccupation with the internal dynamics and organisational problems of co-operatives. Co-operative performance is perceived as depending on events, processes and personalities internal to the enterprise, rather than on

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25 see for example the paper by Estrin & Jones at the SCS/OU conference on co-ops research (1986), and my comments on this paper (Jefferis 1986).

its interaction with a specific political economy. The approach is 'voluntaristic' in that what happens is perceived as a function of unconstrained human will. This approach does reflect the actual day-to-day problems and decisions facing co-op workers. But unless it can go beyond this it remains purely descriptive of the processes of decision-making etc. within co-operatives. Behavioural studies typically lack any analysis of why co-ops have to make the decisions that they do, decisions which are the result of the conflicting interaction of co-operative objectives and the constraints imposed by operating within a capitalist market economy. Unless this is taken account of then there can be no explanation, no understanding of the causes of why co-ops act in the way that they do.

The above approaches can be clearly contrasted with that of Clarke and Fairclough mentioned above. Both authors analyse the fortunes of the respective co-operatives within the context of processes at work in the relevant sectors of British industry. By relating specific features of these individual co-ops to the economic and political environment which formed the context of their formation and operation, these authors succeed in presenting a full picture of the causal factors determining the performance of these co-ops. Perhaps the major drawbacks with these studies are that firstly, the methodology used is not made overt, and secondly, the concentration on one co-operative in each case limits the ability to generalise from the findings, although, as has been explained earlier, this is not necessarily the aim.

Extensive and intensive research

The different approaches can be located within broad categories of research identified by Sayer & Morgan[26]. They have usefully characterised research as either *extensive* or *intensive*. The contrasts between the two are illustrated overleaf.

Extensive research makes use of aggregate statistics, surveys and statistical analyses, with the aim of making empirical generalisations for a whole population on the basis of statistical analysis. It is very reliant on quantitative techniques and formal methods. Intensive research explores in detail how causal processes are structured and work out in specific cases, with an emphasis on abstraction rather than empirical generalisation. Research methods tend to be qualitative and informal, and less standardised than those of extensive research.

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26 Sayer, 1984; Sayer & Morgan, 1985.

Intensive and extensive research: a summary

	Intensive	Extensive
Research question	How does a process work in a particular case or small number of cases? What *produces* a certain change? What did the agents actually do?	What are the regularities, common patterns, distinguishing features of a population? How widely are certain characteristics or processes distributed or represented?
Relations	Substantial relations of connection.	Formal relations of similarity.
Type of groups studied	Causal groups.	Taxonomic groups.
Type of account produced	Causal explanation of the production of certain objects or events, though not necessarily a representative one.	Descriptive 'representative' generalizations, lacking in explanatory penetration.
Typical methods	Study of individual agents in their causal contexts, interactive interviews, ethnography. Qualitative analysis.	Large scale survey of population or representative sample, formal questionnaires, standardized interviews. Statistical analysis.
Are the results generalizable?	Actual concrete patterns and contingent relations are unlikely to be 'representative', 'average' or generalizable. *Necessary* relations discovered will exist wherever their relata are present, e.g. causal powers of objects are generalizable to other contexts as they are necessary features of these objects.	Although representative of a whole population, they are unlikely to be generalizable to other populations at different times and places. Problem of ecological fallacy in making inferences about individuals.
Disadvantages	Problem of representativeness.	Lack of explanatory power. Ecological fallacy in making inferences about individuals.

Sayer and Morgan point out that the contrast between the two methods is further reflected in the kinds of groups and categories which are discerned and studied, and the contrast between degree of descriptiveness, 'representativeness' and causal explanation. Extensive research tends to focus on groups which share similar attributes although not necessarily any other connection, with the aim of discovering common features and patterns which are empirically observable. Therefore the formal quantitative regularities discovered are those of similarity, dissimilarity and correlation etc., rather than substantial causal relations of connection. As such, research results tend to be primarily descriptive rather than explanatory - describing formal relationships between objects which have no real connection even if they have similar attributes.

Intensive research focuses mainly on groups which are are causally connected (e.g. co-ops related 'horizontally' through competition). It aims to discover the underlying causal mechanisms. In each particular case the research should uncover the necessary relations between phenomena or objects. These necessary relations can be generalised, in that wherever those objects exist then so will those relations or properties. This does not mean that such generalisation will be manifested in empirical regularities; as we have seen above, actual concrete processes or observable events are produced through a combination of necessary and contingent relations. Research findings describing actual outcomes are unlikely to be generalisable to other contexts with a different combination of contingent conditions. The results of intensive research cannot therefore be generalised in the same way as those of extensive research (although this is not their intention). However, they do allow the identification of causal agents in the particular contexts relevant to them and so provide a much better basis for recommending policies which have a 'causal grip' on the agents of change.

Uses of intensive and extensive research, and their compatibility

It should be clear from preceding sections of this chapter that given the characteristics of the two types of research, they will tend to be used in certain ways. Extensive research is particularly suited to empiricism: it concentrates on relationships of association (rather than causation) between variables, it is fundamentally quantitative and it usually covers a large number of observations, enabling statistically rigorous testing of those relationships at its most sophisticated in econometrics. The type of data generated is therefore particularly amenable to empirical generalisation, prediction and hypothesis testing (although this is not *necessarily* the use to which it is put), and the type of relationships considered are those of orthodox theory. Intensive research is much more suited to a realist approach, aimed at uncovering necessary relationships and explaining social phenomena rather than describing or predicting them. It is well suited to an analysis of the tendencies of marxist theory.

Although extensive and intensive approaches do have suitability for research based on specific epistemologies, does this mean that the two are conflicting or incompatible? Sayer and Morgan deal with this question and conclude that compatibility is neither assured nor impossible, but is likely to be somewhat elusive[27]. The key to compatibility is in the conceptual framework used - the main contrast between the two is generally in terms of the framework of explanation underlying the research. Extensive research, for instance, could be used perhaps in the initial exploration of data, in the exploratory phase, to uncover relationships between variables which require explanation, as a prelude to the explanatory analysis of intensive research. Compatibility would be dependent on the categories used; if extensive research is used to to uncover relationships between variables linked by attribute and association, it is unlikely to be compatible with intensive research aimed at uncovering causal relationships. Compatibility in terms of explanation is not easy, and the categories used in extensive research need to be meaningful for explanatory analysis.

Alternatively, the intensive research could come first; "if a particular kind of mechanism or process has already been discovered by intensive research, then provided adequate data exist it might be possible to use extensive methods to discover its incidence and extent"[28]. Deriving the sample or population for the extensive analysis from the intensive analysis should ensure that the population is homogeneous.

Given these provisos: choice of explanatory or causal (rather than descriptive) categories for extensive research, plus the availability of adequate data, then it should be possible to use the two research methods in a complementary manner. This could perhaps enable overcoming the shortcomings of each: the intensive element would provide the explanation of why certain events or processes have taken place; conversely, the extensive element could tell use how widespread or 'representative' are the results produced by the particular processes which it is focused. The key to this is the satisfying of two conditions:

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27 Massey & Meegan, 1985, p. 7.
28 ibid., p. 151.

- that the conceptual framework or framework of explanation used is common to both types of research, and
- that the categories of analysis are related to explanation rather than just description.

RESEARCH STRUCTURE FOR THIS PROJECT

The broad aim of this research is an analysis of the position of worker co-operatives in a capitalist economy, the processes at work which affect this position, and the relevance of co-operatives as part of radical socialist policies. This must be more clearly defined and narrowed down to deliver a manageable research topic; the first part of this process is to limit the object of the investigation to worker co-operatives in Britain, and more specifically to the 'new' co-ops, which have emerged since the mid-1970s.

The theory sections in earlier chapters dealt at length with the pressures towards degeneration to which co-operatives would be subjected. The pressures would be manifested as a conflict between commercial success and the maintenance of the socialist character of worker co-operatives, in terms of both production and appropriation. As the market is the key area in which degenerative pressures are transmitted, the manifestation of this conflict would depend crucially on the extent to which individual co-operatives are exposed to market pressures.

The central argument is that co-ops start in a relatively weak position when competing with capitalist firms. Shortage of finance affects them from the beginning, and this is likely to be compounded by a shortage of skills. But in addition to this all of the objectives centered on a restructuring of the labour process will have a further cost in commercial terms (except in a few exceptional circumstances), although this cost will vary depending more specifically on the competitive situation in which the co-op finds itself.

Degeneration as a research topic

An examination of degeneration has been central to a great deal of research on workers co-operatives, although it can be interpreted in various different ways. Behaviouralists tend to concentrate on the break up of internal democratic forms and participatory structures, usually explained by inappropriate internal communications and decision-making structures, personality clashes or simply the inherent difficulties of implementing and maintaining workplace democracy - all factors of relevance to co-operative workers but essentially symptoms of causal processes, rather than causes of degeneration themselves. Explanation remains ahistorical and voluntaristic.

Those of an orthodox neoclassical persuasion tend to concentrate on the commercial 'inefficiencies' of co-operatives compared to capitalist firms; arguing that co-operatives are inherently unworkable or inappropriate (Alchian & Demsetz, Furubotn & Pejovich); that they are workable but need the correct institutional and financial structure (Vanek's theory of financing, Oakeshott), or that evidence of degeneration in the past is incorrect (Jones).

There has been very little empirical research on workers co-operatives from a Marxist perspective. I have already mentioned the research by Clarke and Fairclough on SDN and TMM respectively; in both cases the research was centered on one particular co-operative; instead of merely describing internal events, personalities, relations and processes, these were explained (as was the ultimate collapse of both co-operatives) in terms of their relationship to processes taking place in the specific industries, the British and international economies, and state policy towards co-operatives. Clarke, for instance, found it necessary to produce one volume examining the British press and newspaper industry, and another on the experience of the British worker co-op movement, in order to explain the findings of his volume on the experience of the Scottish Daily News, whilst Fairclough carried out an extensive investigation of the motorcycle industry in the context of the TMM experience.

Central to this present thesis is an analysis of pressures towards degeneration and conditions for its avoidance. The aim is to build upon the work of Clarke and Fairclough in two particular ways:

- to examine the experience of the 'new' British worker co-operatives, formed since 1975, rather than the 'Benn' co-ops. The newer co-operatives contrast with the Benn co-ops: they are smaller, are not generally formed out of the collapse of existing companies, operate in different industries and with a somewhat different dynamic, subject to different relations with the rest of the economy.

- to examine a wider range of co-operatives than can be achieved by a case study of one or two; that is, to determine how widespread are certain processes affecting British co-operatives.

The first of these objectives does not raise any particular difficulties; by 1987 there were nearly 1,000 co-ops in Britain, compared to less than 30 in the mid-1970s. There is therefore an ample number of co-operatives to choose from as the object of the research.

The second objective is more contentious, because of its implications for the nature of the research carried out. In terms of the debate of the previous section, it requires a combination of intensive and extensive research. Inevitably this means sacrificing some detail about individual co-operatives; the aim, however, is to not sacrifice explanation.

I have chosen to examine the commercial performance of British co-ops since 1975, and to analyse this performance in the context of their relationships with the capitalist economy. This makes it unusual in relation to previous pieces of empirical research on co-ops (which is indeed its aim). Bennett notes that there is a

> tendency to study co-operatives in isolation from their markets.One result of this has been .... to centre on internal co-operative problems, rather than the conditions they face outside[29].

The analysis here adopts a similar approach to that of Bennett, but instead of considering the position of co-operatives solely in relation to product markets, its wider approach takes into account relationships with finance markets and the nature of the labour process in particular industries. Therefore, although Bennett's concern with co-ops' external relationships is taken as a starting point - and this essentially means examining the operation of the sector or industry in which co-ops are located - I take a wider perspective on the scope of those relationships.

Like Bennett's research, this project concentrates upon the financial or commercial aspects of co-op performance, as knowledge of this is necessary for an understanding of their overall position. It primarily investigates two questions, which result from concern with the impact of competition and accumulation on the position of co-ops. Theoretical analysis suggests that co-ops will perform less well than capitalist firms, but also that relative performance will vary depending on the operation of market relations (as well as other factors) across industries. Therefore, the first question addresses the comparative performance of co-ops and capitalist firms in an industry; the second addresses variations in co-op performance across industries.

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29 Bennett 1984, p. 310.

Such an approach involves a combination of intensive and extensive research. The intensive element consists of an analysis of certain industrial sectors in which co-operatives are operating, while the extensive element consists of analysing the broad patterns of co-operative performance within each sector. The aim is to use a marxist analysis throughout, so as to meet the first condition of compatibility above - that the framework of explanation is common to both the extensive and intensive research.

The intensive element - sectoral analysis - stems from the theory that the performance of co-operatives is primarily determined by the relations between co-ops and the market. All co-ops operate in a particular social formation - British capitalism in the 1980s - but the actual form of the interaction with that social formation is determined by the market processes through which the contact takes place (including labour,product and finance markets). An analysis of the political economy of industrial sectors is therefore essential for an understanding of this major influence on how co-operatives operate.

Choice of industrial sectors

Co-operatives operate in most sectors of the economy, although they are distributed unevenly (as are small firms generally). One option would be to make a random choice of sectors - a sampling approach. This would be necessary if the intention was to carry out a statistically rigorous testing of the data from these sampled sectors with the aim of generalising the results to the population as a whole (i.e. all sectors). However, it is not the intention to generalise in this way; it may be that some conclusions represent the necessary relations which are applicable to all co-ops whatever their sector; other conclusions will be derived from the additional operation of contingent conditions, which characterise the specific sectors at specific points in time only, and are therefore of limited general applicability. The essential aim is to isolate the characteristics of industrial sectors and the processes operating within them, and to draw conclusions applicable to the specific sectors chosen, with which the performance of co-operatives in these sectors can be explained. For this purpose a random sample is meaningless, and much more useful results can be derived by a careful selection of the sectors to be examined.

The choice has therefore been made with two aims in mind:

- sectors where the experience of co-ops is likely to provide contrasts;

• those contrasts should attempt to cover as wide a range as possible of likely co-op experiences.

I have used the classification of small firms by Schutt & Whittington (S&W)[30], which classifies all small firms with reference to their relationship to large capitals. S&W identify three possible types of relationship (and therefore all small firms, including co-ops, must fit into one of these). Given that the experience of small firms is likely to be largely determined by the activities of large firms and the type of relations between the two, covering all of the S&W categories should provide examples of all the causal processes operating on co-operatives.

The three categories applicable to small firms identified by S&W were: (a) *dependent* - subcontract/suppliers - vertical relationships with large capitals; (b) *independent (i)* - competitive - often on the basis of intense exploitation and outdated equipment; (c) *independent (ii)* - usually operating in specialised market niches ignored by large capitals.

The respective co-operative sectors chosen are:

(a) *Clothing manufacture* - the majority of small clothing firms are both supplied by and supply to larger companies who co-ordinate the production process.

(b) *Printing* - small firms in predominantly competitive relationships with both small and large firms.

(c) *Wholefood (distribution) wholesaling and retailing* - a very limited presence of large firms (until recently at least).

These sectors fit the categories reasonably well (detailed reasons for locating these sectors in applicable categories are given in the relevant chapters). It is important to remember that in practice it is unlikely to be possible to find co-op (or small firm) sectors which correspond exactly with these definitions, although almost always a sector will fall more suitably into one category rather than the other two. This is because in no sector would firms experience a 'pure' relationship with large capitals of only one kind, there will always be elements of other relationships. Part of the reason for this is that the economy operates dynamically, and relations within it are constantly changing and adapting. Unlike the emphasis of neoclassical economics, we should not expect the economy to be in equilibrium, but

30 *see previous chapter.*

adapting to the various contradictory pressures which are always present and which capital will be attempting to ameliorate.

Besides matching the required categories, these choices do have the advantage that they are sectors where co-operatives have been or are prominent: the older (CPF) co-ops from the 19th and early 20th centuries were traditionally strong in clothing & footwear, and printing. The 'new wave' of worker co-ops in the 1970s grew first of all in wholefoods, and has subsequently seen substantial growth in both printing and clothing. These sectors also have the advantage that they offer significant amounts of data, and cover a substantial proportion of the whole co-operative sector.

Choice of variables in extensive analysis

The extensive element of the research consists of isolating sectoral characteristics by analysing aggregate data covering co-ops within each sector. In looking at all of the co-ops in a particular sector we clearly satisfy the requirement stated earlier (for compatibility) that the sample is homogeneous and causally related; they are firstly related through competition in the same market, and secondly through their relationship with large capitals.

The most problematic aspect of the approach is the choice of variables which will form the basis of the extensive analysis. They must be relevant to the conceptual framework adopted, and should therefore relate to the tendencies towards degeneration identified earlier. I have interpreted the degeneration issue as the tension between commercial performance and survival in the capitalist market, and maintaining the socialist character of co-ops which potentially stems from worker ownership and control of the means of production.

Emphasis is on the commercial aspect of co-op degeneration: to what extent have co-ops been able to achieve a sufficient level of commercial success to ensure survival? At the same time commercial performance must be analysed in the context of changes in social relations which co-ops bring about. The question of how to measure commercial performance for workers' co-ops, and which specific variables should be chosen, is addressed in chapter 7.

Sources of data

The major source of general information on co-ops was the database established by London ICOM covering all British co-ops, which carries data on co-ops' age, location, employment, and activity. A substantial amount of time was spent maintaining and updating this database in order to provide an accurate picture of the overall co-op sector, and it was used as the basis for locating co-ops in the three chosen industries. The main sources of financial data were returns deposited at Companies House and the Registry of Friendly Societies. The main elements are financial data on co-ops' revenues and costs, distribution of surplus, and financing. These data sources and characteristics are described in detail in Appendices 2 and 4. A secondary objective of the research was to establish a database of co-ops' financial performance, which could then be used by other researchers.

Quantitative data of this kind is primarily descriptive; it presents a picture of the commercial experience of co-ops. The task is to explain this picture. Some aspects of explanation can be located within financial data. For instance, poor performance may be associated with undercapitalisation, which will be evident from this data. Obviously this does not explain the undercapitalisation, but it does suggest which of several possible causal processes is in operation. Poor performance due to undercapitalisation is not the same as poor performance due to the establishment of an alternative to the capitalist labour process within the co-op, although both are ultimately due to the conflict between co-operatives and the capitalist economy.

Previous research using financial data has concentrated on efficiency arguments - are co-ops more efficient than capitalist firms as commodity producing enterprises? This focuses solely on their commercial performance (although is sometimes extended to employment creation) and does not address the qualitative aspects performance.

The problem with orthodox approaches is not that they *address* the question of co-operatives' commercial performance. If co-ops are to secure any achievements they must survive commercially. Their mistake is that they consider *solely* commercial performance; it is considered in isolation from social factors. This reflects the conventional economists' view of economics as a technical discipline, abstracted from social or political questions, and contrasts totally with marxist political economy. The latter does not ignore commercial performance but addresses the question of the nature of the relationship between commercial and social performance. That is, under what circumstances does success in one imply failure in the other? What is the relationship between commercial performance and social relations? Social and commercial performance for co-operatives are two sides of a whole and it is meaningless to analyse one without the other. To ignore social performance, when we know that it may represent achievements made *despite* poor commercial performance, is to ignore the essence of worker co-operatives.

Other parts of the explanation must be derived from outside of financial data, and must be related to other aspects of the operation of co-operatives. Ultimately the aim is to determine to what extent co-operative commercial performance is associated with gains or losses in other areas. Referring back to the central question of the degeneration argument: to what extent, and why, is commercial success achieved only at the expense of abandoning 'socialist' aspects of co-operatives? Or, under what conditions can commercial survival and socialist success be maintained?

Given the broad range of co-operatives being looked at, it is obvious that it is not possible to collect data on this question in the same depth or detail as is possible when undertaking a detailed case study of a single co-operative. This kind of data is not readily available in the same way as financial data, nor indeed is it by nature quantifiable like financial data. It was therefore necessary to derive information from a range of different, mostly secondary, sources.

Two main sources were used. The first was a questionnaire sent to all known worker co-operatives early in 1986. The aim of this was to find out more descriptive information about co-ops but which would give information about their methods of operation - such as the level of wages and wage structure (differentials); relationship and attitudes to the trade union movement; type of origin (e.g. 'new start', 'rescue', 'conversion'); and objectives of the co-op. The second major source is interviews with and case studies of co-operatives. Although these were carried by different people at different times and for a variety of research purposes, they do provide a wide range of contextual information which can be used to locate commercial experience. In particular, the nature of the labour process in co-operatives, and relations with other co-operatives, competing firms, the community and the wider labour movement can be ascertained.

Presentation of results

The results of co-op performance are contained in Part Two. The first chapter includes an overview of the economic circumstances surrounding the growth of co-ops, and of the character of the co-op sector. Following this, the bulk of primary data collected concerned the commercial performance of co-operatives. Results based upon this data are presented in chapters 6 and 7, concerning the financing and commercial performance of co-ops in the three sectors. As the main focus of interest is the co-op sectors and the processes at work in the sector or industry, rather than those acting upon individual co-ops, the presentation is largely in terms of sectoral-level data. The chapter on the financing of co-ops analyses their relationship with finance capital, different sources of finance used and the relative positions of the three sectors, and changes over time. This provides the basis for an analysis of the commercial performance in the three sectors in the following chapter.

The first part of analysing commercial performance involved the development of an alternative accounting framework for co-operatives. This was necessary because, whereas profitability is all-important for capitalist firms, it does not have the same status in co-ops; although co-ops are forced into 'profit-maximising' behaviour by the need to compete, workers have some discretion over the distribution of any surplus between wages and reserves. Therefore the alternative framework is based upon value-added rather than profit, and analyses both the *generation* of value added (in relation to skill levels and the amount of machinery used) and its *distribution* (between wages and reinvestment).

Secondly, this framework is then applied to the performance of co-ops in the three sectors. Capacity to generate a 'return to labour' is analysed in terms of the results of the previous chapter on financing, and the ability of co-ops to accumulate in the same way as capitalist firms, whilst maintaining adequate levels of wages. Co-ops' financial performance is analysed throughout in comparison with capitalist companies.

The following three chapters - one on each sector - explore the historical development of the sectors and of co-ops within them. In these chapters the previous results on commercial performance is explained in terms of market structure and co-ops' position within it, the historical development of the labour process, and how both of these affect co-ops ability to both pursue 'co-op' objectives and meet the capitalist requirements for survival.

Relating conclusions (outcomes) to questions

The conclusions concern the ability of co-ops in different sectors to achieve commercial survival, whilst achieving wage levels comparable to other workers, and the factors which have a major influence on this. In terms of the realist framework outlined earlier, the conclusions relate to the way in which contingent conditions affect the exercise of co-ops' causal liability to degenerate. The political role of this is to investigate the specificities of the concrete so as to strengthen attempts to inform practice. Being able to isolate these factors has implications for the extension of co-operative activity, and the replication of past successes in other industries or sectors. Or, the finding can be inverted: what are the constraints which lead to poor performance, and which must be removed if successes are to be generalised? The conclusion goes beyond a mere listing of these constraints, but aims to examine the political and economic conditions which lead to their intensification or relaxation.

Part II

The Performance of British Co-operatives

Part Two - Contents

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5. *Worker Co-operatives in Britain*

Origins and Characteristics

INTRODUCTION

> The [worker co-operative] movement has grown beyond all expectations since 1976. We have witnessed a 26-fold increase which has brought 1,400 co-ops and 12,000 worker-owners into being, the greatest increase in Europe, (superseding even the much-praised co-operatives of northern Spain). Currently the failure rate for co-operative companies is running at about 14% - a staggering contrast to the 75% failure rate for small businesses in the first three years.[1]

This paragraph sums a widely held view - now passing into co-operative mythology - that the co-op sector is booming, firmly established, and more successful than capitalist firms. Unfortunately, virtually all of the statistics quoted to put this view across are wrong; while the co-op sector does indeed embody some remarkable successes and achievements, these do need to be assessed critically. In particular, more accurate data is required to give a firm basis (or otherwise) to some of the more ambitious claims, as well as a suitably grounded analysis of the experience of co-ops. That is, the growth in co-ops to date must located within changes taking place within British capitalism, and the prospects for the future of the co-op sector assessed on the same basis.

The lack of accurate statistical information about co-operatives is a major problem for researchers and activists, although often not acknowledged as such[2]. Macfarlane bluntly notes in *Councils Support Co-ops* that "statistics about co-ops are of doubtful quality"[3]. There are three main reasons for this. Firstly, small businesses generally are renowned for a poor quality of statistical information[4], and this applies equally to co-ops; in both cases there is a lack of resources to collect and process more accurate data, a problem which is being exacerbated by reductions in data collection from the private sector by government departments. Secondly, there is confusion as to what exactly constitutes a co-operative. Thirdly, there is a strong tendency within the co-op movement to accept the most favourable figures unquestioningly. As Thornley notes:

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1 Anna Whyatt, New Socialist supplement on co-ops, 1987.

2 Although the lack of an adequate theoretical framework is perhaps an even more serious problem

3 Macfarlane, 1986.

4 TUC, nd; Guardian 16.11.87.

> How many times have the same uncritical speeches been trotted out, boasting of the staggering growth of co-operatives co-operatives supported by an impressive and integrated network of agencies across the country. The reality is much less satisfying.[5]

The growth of the co-op sector is an example of a crucial and basic piece of information which is characterised by both excessive claims and a lack of analysis. Undoubtedly there has been a substantial growth in the number of workers' co-operatives over the last decade, but exactly how large is this growth, what form does it take, and why has it taken place?

Figures quoted in the bi-annual directories published by the national Co-operative Development Agency are reproduced below in Table 5.1 and suggest rapid expansion of the sector, to over 1400 co-ops by 1986.

Table 5.1 UK worker co-operatives (CDA Figures)

	1980	*1982*	*1984*	*1986*
No. of co-ops	305	498	911	1476
Annual growth	-	27%	35%	27%

Source: National Directory of Co-operatives and Community Businesses (CDA 1986), and my own calculations.

Some very dramatic extrapolations have been made on the basis of these figures, leading to statements such as "if the growth continues at the same rate, there will be over 250,000 co-operative businesses by the end of the century"[6]. Such statistical interpretations are unhelpful and pay no attention to the reasons for this growth, tending to treat it as some form of uncontrolled multiplication, as if the amoeba of the co-operative movement were spontaneously dividing. It is a view which lacks an understanding of the reasons for the growth that has taken place. My own investigations suggest that the actual number of co-operatives is substantially less than this, and that there is little prospect of growth continuing at the rate of the past few years; in fact the signs are that the growth is tailing off already.

5 New Socialist, op.cit.

6 *CDA, 1984, p. v.*

While such statistics can be useful they do not in themselves constitute an explanation; this requires a historically grounded analysis of the circumstances in which growth has taken place. Statistical findings are highly suggestive but in themselves they do not necessarily reveal the underlying 'causal mechanisms'[7]. A cursory glance at the historical experience of co-ops reveals a cyclical process of growth and decline[8]; what reason is there to suppose that this will not be repeated? The aim of this chapter is to present accurate and justified statistics and data on the present state of the co-operative sector, and to relate these to the changes taking place in the British economy. Therefore statistics will not be presented for their own sake, but attempts will be made to explain as well as describe the changes and processes taking place.

1976-86: A DECADE OF GROWTH

The growth of the worker co-operative sector in Britain from 1976 to 1986 is shown in Figures 5.1 and 5.2, and Table 5.2. The number of co-ops started growing from 1970 onwards, albeit relatively slowly until the mid-1970s. The real boom came during the 1980s, with the total number of co-operatives increasing from around 200 in 1980 to nearly 900 by the end of 1986. However, it would appear that this growth is by now tailing off; the peak years were 1982-4, when new co-op registrations took place at a rate of around 45-50% of the number of co-ops existing at the beginning of each year. Although the number of new co-operatives formed remained fairly constant over 1984-6 - at just over 200 per year - the growth *rate* of the sector declined to 33% in 1985 and 29% in 1986[9]. More recent evidence suggests that by the end of 1987 the formation rate of new co-ops was also declining in absolute terms[10]. The most active period immediately followed a time of rapidly rising unemployment, and coincided with the peak of the economic activities of Labour local authorities, which itself led to rapid growth in the number of local CDAs (Co-operative Development Agencies).

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7 Schutt & Whittington, 1987; Sayer 1984.

8 Cornforth, 1987; Bate & Carter 1986.

9 The 1986 figure may be based upon not quite complete data. However, it is reported by ICOM (who handle around 75% of all new co-op formations) that the rate of new registrations has been fairly steady, fluctuating around 19-20 per month from 1984 to the first half of 1987 (New Co-operator, various). This suggests that my figures for 1986 are reasonably accurate.

10 The winter 1987 edition of New Co-operator reported that during the period August-October 1987, the monthly average of new registrations was 25% lower than in the first 7 months of 1987.

Table 5.2 Formations of worker co-operatives, 1975-1986

Year	*Co-ops formed*	*Co-ops surviving*	*Survival rate (%)*	*Co-op stock (y/e)*	*Sector growth (%)*
1946 to 1975	44	29	65.9	32	..
1976	19	10	52.6	48	58.8
1977	32	13	40.6	75	66.9
1978	67	33	49.3	134	89.2
1979	46	26	56.5	165	34.3
1980	70	38	54.3	217	42.5
1981	73	37	50.7	267	33.6
1982	128	59	46.1	366	48.0
1983	181	100	55.2	506	49.5
1984	229	154	67.2	651	45.3
1985	232	189	81.5	765	35.7
1986	223	206	92.4	894	29.2
Total	1343	883	66	..	..

Source: London ICOM (1987) (Worker Co-op Database), and my own calculations

Figure 5.1 Formation and survival of co-ops

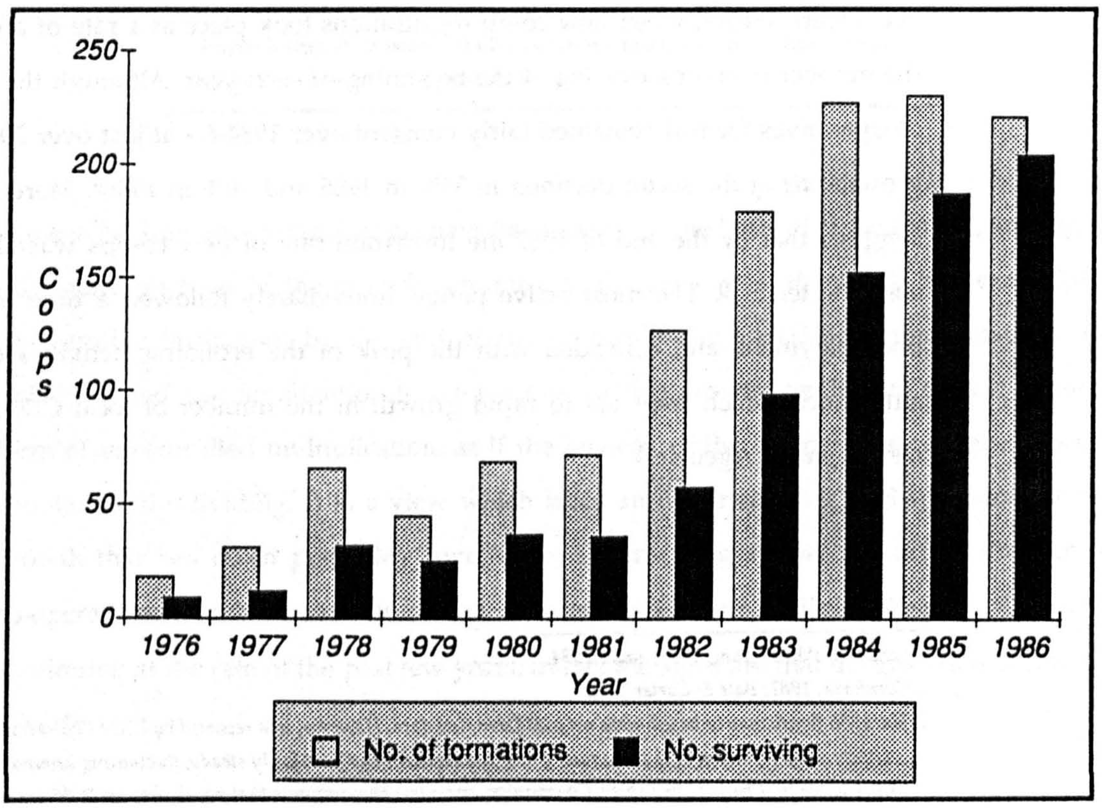
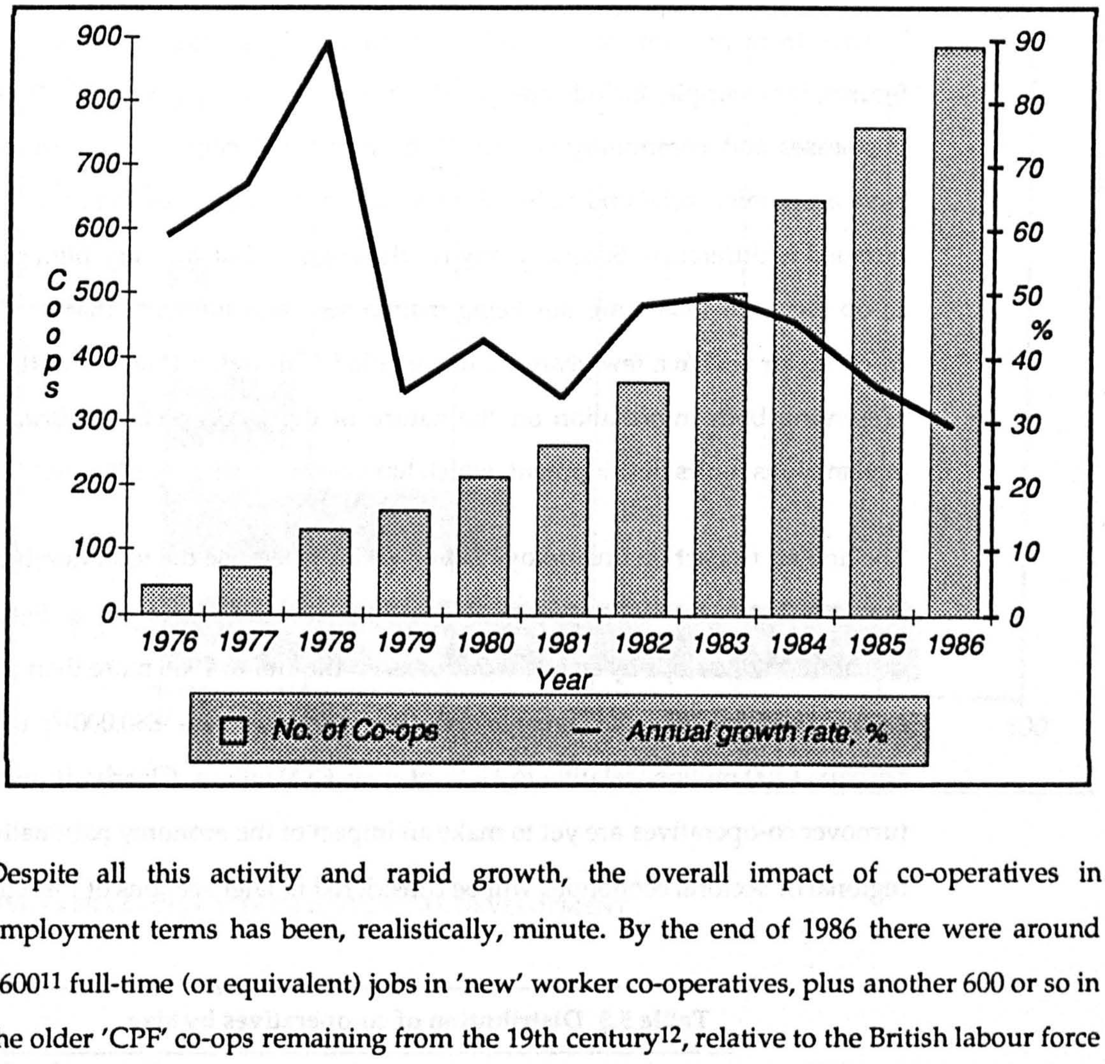


Figure 5.2 Worker co-op sector: size and growth rate



Despite all this activity and rapid growth, the overall impact of co-operatives in employment terms has been, realistically, minute. By the end of 1986 there were around 5600[11] full-time (or equivalent) jobs in 'new' worker co-operatives, plus another 600 or so in the older 'CPF' co-ops remaining from the 19th century[12], relative to the British labour force of some 25 million and unemployment of 3 million. In London there are perhaps 1500 jobs in co-operatives; this must be considered relative to the estimated 500,000 jobs lost in the capital between 1973 and 1983[13].

This data suggests that the figures quoted above from the CDA are vastly over-optimistic. Firstly, the widely accepted figures on the size of the co-op sector are much too high, based as they are on data for co-op registrations rather than co-ops known to be actually trading[14]. As with all forms of businesses, many co-ops register but do not actually commence

11 This is probably an underestimate, but not by all that much. Due to inevitable time lags there is a delay in obtaining accurate data on the number of workers in newer and in rapidly growing co-ops. However, it is unlikely that despite the very high number of co-ops in Britain by historical standards the number of co-op workers exceeds the historical peak of 10,000.

12 Almost all surviving co-operatives were members of the Co-operative Productive Federation, affiliated to the Co-operative Union. See Appendix 9.

13 Census of Employment, quoted in GLC, 1985.

14 For more details on data see Appendix 2.

trading; I have therefore used data based on co-ops which have registered and which are known, from one source or another, to have at least one full-time worker. The CDA's figures, for example, include co-ops whether or not this applies, and also some community businesses and community co-ops. Both co-ops and community businesses are likely to have economic, social and political objectives, but the internal dynamic by which these are pursued is different[15]. Secondly, my results suggest that the very high growth rates in the co-op sector in 1983-4 are not being maintained, and therefore that predictions for a vast co-op sector within a few years are not justified. Throughout the rest of this chapter I will be presenting both information on the nature of the co-op sector in Britain, as well as the explanations for its development, which have been missing up till now.

The limited impact on unemployment is not only because the total number of co-ops is low, but also because the vast majority are very small16. Table 5.3 & Figure 5.3 show the distribution of co-ops by size of workforce. At the end of 1986 more than 50% had 4 workers or less, and in 1984 the average (median) turnover was £80,000[17]; total turnover was perhaps £200 million, relative to GDP of over £300 billion. Clearly, in terms of workers or turnover co-operatives are yet to make an impact of the economy nationally; their impact on regional or sectoral economies will be considered in later sections of this chapter.

Table 5.3 Distribution of co-operatives by size

Size (no. of workers)	*No. of co-ops*	*Total workers (FTE)*
1 - 4	520	340
5 - 9	240	1337
10 - 19	88	992
20 - 49	28	704
50 - 100	3	165
over 100	4	1018
Total	883	5556

Note: FTE = full-time equivalent.

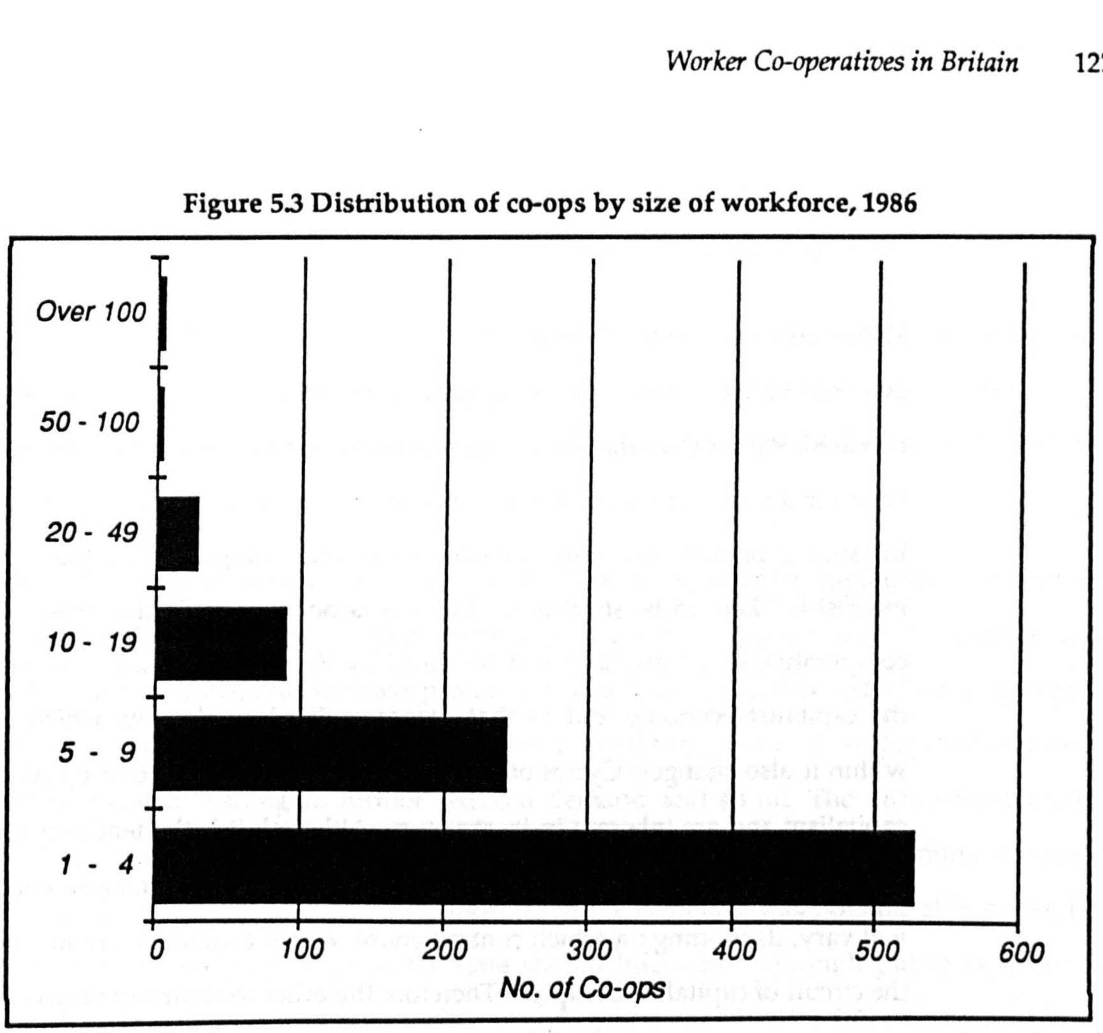
Source: as Table 5.2

15 *Macfarlane, 1986, p. 10.*

16 *Ben-ner, 1988, comments that the size of co-ops in various countries has been getting smaller over the past decade, due largely to the formation of many small, new co-ops from scratch.*

17 *Turnover figure based upon questionnaire data and examination of co-op accounts, giving data on 295 co-ops.*

Figure 5.3 Distribution of co-ops by size of workforce, 1986



WORKER CO-OPERATIVES: HISTORICAL DEVELOPMENT

Boom and bust - co-ops and crisis

The historical record of workers co-operatives in Britain has until very recently been decidedly poor. The sector always has been and remains small in national terms; even in the nineteenth century co-ops never existed in large numbers and "have rarely exceeded 200 at any one time"[18]. The failure to develop a thriving co-operative sector in Britain has several causes. Firstly, the labour and worker co-operative movements parted company in the late nineteenth century. Secondly, the co-operative movement received little or no government support, contrasting with the experience of sectors in France, Italy and later Spain, where interventionist government policies acted strongly to support emerging co-op sectors[19]. Thirdly, the structure of British capitalism has been until recently relatively unfavourable

18 Thornley, 1981, p. 10.

19 Worker co-operatives in France and Italy also had the support of those countries' Communist Parties and major sections of the trade union movements, support which was important in generating government intervention in favour of co-operatives.

towards small firms, with the small firm sector in Britain being relatively the smallest amongst OECD economies[20].

Historically the formation rate of worker co-operatives in Britain has varied cyclically, and evidence of the recently declining growth rate suggests that this pattern is perhaps being repeated. Rather than the boom in co-operative formations over the last decade forming the basis for a transformation of the economy, or even a substantial co-operative sector within Britain's capitalist economy, previous experience suggests that the current activity and interest is likely to be short-term. But this is not *necessarily* the case. The fortunes of the co-operative sector are largely determined by the changing nature of its relationship with the capitalist economy, but as that economy develops the role which co-operatives play within it also changes. Cycles of growth, recession and restructuring have always plagued capitalism and are inherent in its structure. Although it is the tendency of the rate of profit to fall which is at the root of such crises, the actual form which any particular crisis takes will vary, depending on which contradictions within capitalism are most severe and where the circuit of capital is disrupted. Therefore the exact relationship between capitalism, crisis and the growth of worker co-ops will also vary. In the context of cyclical developments in the co-operative sector, it is interesting to note that wider developments in worker participation have shown similar cycles of interest and decline, although for different reasons[21].

Throughout the nineteenth century there were waves of co-operative formation and collapse; they were formed in mostly in periods of growth, but the sector was periodically dealt serious blows by slumps which caused extensive co-op failures[22]. By 1918 there were perhaps 100 co-operatives in Britain, with less than 10,000 workers. From the turn of the century until the mid-1970s there were virtually no new co-ops formed[23], and numbers gradually declined. Jones[24] makes a brave attempt to analyse their performance in both survival and participatory terms, and considers that they were more successful than capitalist firms, but as Clarke points out, he was examining nothing more than "the geriatric

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20 Ganguly, 1982.

21 Bate & Carter, 1986; Ramsay, 1977 & 1983; Poole, 1986, p. 100.

22 Thornley, 1981, chapter 1 and Bate & Cater, 1986, pp. 58-9, give more details.

23 Except a short-lived boom of building co-operatives in 1920-21, linked to the guild socialist movement and supported by municipal contracts.

24 Jones, 1975.

survivors of a decimated movement"[25]. The number of these CPF co-operatives continues to decline, and by 1988 only 5 remained.

The severe crisis of the 1920s and 1930s led to no new co-operative formations and contributed to some failures of co-ops remaining from the previous century, and yet the nature of the restructuring process adopted at that time laid some of the foundations for the growth of co-ops in the last decade.

The 1930s depression was marked by a realisation crisis, whereby capitalists could not sell all commodities produced. They attempted to reduce real wages and employment so as to reduce selling costs, and increase profits. But this led to a further reduction in aggregate demand, and a downward spiral of low profitability, reduced wages and increased unemployment, leading to further reduced demand and so on. The unregulated market economy could not be relied upon to produce a full employment equilibrium; Keynes'[26] theoretical analysis showed how equilibrium in the economy was possible at less than full employment, and proposed that the state should intervene - through public expenditure and taxation policy etc. - so as to maintain aggregate demand at the full employment level. Macroeconomic demand management formed the foundation of postwar economic policy and led to a prolonged period (1950-1970) of high profits and a high rate of capital accumulation. Concentration and centralisation of capital took place rapidly, often encouraged by governments, as monopoly capitalism became more firmly established. The role of small firms in the economy diminished,[27] and there was little or no role for co-operatives as nationalised industries and large firms became the order of the day.

The reasons for the end of the long postwar boom are complex[28], but ultimately this regime could not be maintained. Demand management enabled high rates of profit and accumulation, plus some gains shared with privileged sections of the working class, through increased real wages and welfare state provision; eventually there was downward pressures on the rate of profit as the organic composition of capital rose, but capital could not impose sufficient increases in relative or absolute exploitation to counteract this and maintain profits. Falling profitability was accentuated by the oil price shocks of 1973 and 1979 which caused industry's costs to rise sharply, deepening the recession and pushing

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25 Clarke, 1983c, p. 16.

26 Keynes, 1936.

27 Prais, 1976.

28 See e.g. Green and Sutcliffe, 1987, chapter 16; Smith & Aaronovitch, 1981; Armstrong, Glyn & Harrison, 1984.

unemployment up even further. In this situation, continued attempts by the Heath/Wilson/Callaghan administrations during the 1970s to implement Keynesian policies failed to avert a deepening crisis of high inflation, high unemployment and low profitability. The severe dislocation suffered in the 1970s led to the radically different restructuring policies adopted by the Thatcher government since 1979, which were drastic in themselves but attempted to lay the foundations for a renewed period of capital accumulation.

A second important measure adopted by the postwar Labour government was an extensive programme of nationalisation of strategic industries, including the railways, coal, steel and road haulage. This measure represented the fulfilment of a socialist commitment to public ownership which was long-standing in the Labour Party[29], but the subsequent development of nationalised industries fell far below the initial socialist ambitions and expectations, with a failure develop socialist principles in their operation.

The interwar period was one of great confidence in bureaucracy and managerialism as an organisational form, under the analytical influence of Max Weber and the practical experience of rapid industrialisation achieved under Stalin in the USSR and by Fascism in Italy and Germany[30]. This meshed with similar Fabian conceptions of public ownership to produce large, bureaucratic publicly-owned corporations with minimal democratic accountability to either workers or consumers. There were some gains for labour, as both real wages and job security improved under public ownership, but beyond this the labour process was little different to that under private ownership, with the same hierarchy of unelected managers, the same technology and production processes. Furthermore, failure to restructure the labour process in the nationalised industries was matched by a similar failure at the level of the economy. Instead of being a vehicle for restructuring for labour, the nationalisation programme in practice offered far more benefits to capital. The industries taken into public ownership were largely ailing and unable to make sufficient profits for capitalists; when nationalised, these strategic industries provided subsidised inputs to a wide range of privately owned industry, and saved capital from having to bear the burden of producing these inputs unprofitably and from having to deal with opposition from a highly organised workforce.

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29 discussed earlier in the context of the Webbs' influence on policies towards social ownership.
30 Cole, Cameron & Edwards, 1981, p. 161.

The failure of the nationalisation programme to benefit the working class significantly, and the undemocratic bureaucratic structure of the large publicly-owned corporations, contributed to a major loss of confidence in nationalisation as a strategy for achieving social ownership[31]. In the light of the perceived failures of nationalisation the Labour party turned increasingly to consideration of other forms of social ownership; in this workers co-operatives have played a prominent part, with the hope that they would provide a form of socially owned enterprise accountable to both the workforce and local community. This has been the strategy of the centre and right of the party; coupled with a failure to analyse the nature of British capitalism, they have supported co-operatives as *necessarily* achieving these objectives rather than examining the conditions under which the progressive nature of co-operatives would be realised - just as there is a limited and unsatisfactory analysis of the reasons for the failure of nationalisation, merely a simplistic response to the undoubted unpopularity of nationalised industries. This mainstream Labour party view has been shared by Eurocommunists and many 'municipal socialists', with the partial exception perhaps of the GLC; the latter's policy of 'restructuring for labour' endorsed co-operatives as a potentially democratic and locally accountable form of worker-controlled enterprise, but in relation to an overall policy which viewed some form of intervention in the market and in the management of capitalist enterprises as necessary conditions for this to be achieved. The differing strategies of Labour local authorities and their effectiveness will receive more attention in Part III.

Support for co-operatives was also built upon the experience generated by the wave of sit-ins and worker occupations which swept the country in the early 1970s[32]. After the impact of the famous Upper Clyde Shipbuilders work-in in 1971, it is estimated that over 150,000 workers had participated in over 200 occupations between 1971-1975[33]. Such occupations and work-ins involved workers in more than economistic demands for better wages and conditions, provoking calls for greater worker control over production[34]. Similar processes had taken place in Europe, manifested in the upheavals of 1968 in France, and Italy's 'hot autumn' of 1969[35]. In Italy, the success of shopfloor struggles led to demands for greater

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31 e.g. Hodgson, 1984

32 Bate & Carter, 1986; Coates & Topham, 1972, Coates, 1981.

33 NE Trade Union Studies Information Unit, 1976.

34 Coates, 1976.

35 Mattera, 1980.

control over the organisation of work, and interest developed in conditions of work which reinforced solidarity rather than those which induced individual competitiveness.

The reassertion of demands for workers' control paved the way for a renewed interest in and sympathy with co-operatives. In Britain this was manifested in the first co-op formations as workers' initiatives in the face of factory closures and redundancies for nearly a century. These will be discussed shortly, but first I will examine the nature of the crisis and restructuring facing Britain in the 1970s and 1980s.

Capitalist restructuring

The crisis of the 1970s and 1980s has been the deepest and most long-lasting since the 1920s and 1930s, both in Britain and internationally. Throughout the capitalist world (and indeed elsewhere) attempts are being made to restructure capital to permit an increase in exploitation and the rate of profit. The primary means by which this is being achieved in Britain are[36]:

Private sector monetarism. A tight money supply policy forced up interest rates and the exchange rate; both measures put pressure on industry, forcing up costs, making exporting more difficult and importing easier and hence reducing demand. Domestic profits were squeezed, forcing some firms out of business and others to cut back on employment and resist pressure for wage rises. Unemployment trebled, and while this policy did not cause the recession it made it more severe. The main benefit of the recession for employers was the discipline that large scale unemployment exerted on those still in work.

Public sector cuts and privatisation. In order to achieve the same result in the public sector a variety of policies were introduced. Funding for public services and local government was reduced (e.g. through the imposition of cash limits and ratecapping) and many functions were contracted out or subjected to competitive tendering. Where this has reduced costs - whether or not privatised - it has largely been at the expense of wages, employment, working conditions, and the quality of service provided. Many nationalised industries have been privatised, leading to redundancies and price increases either before or after privatisation (e.g. British Aerospace, British Telecom, electricity) and others have had their funding reduced (e.g. British Rail).

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36 Adapted from GLC, 1985, pp. 10-11.

Internationalisation of the Economy. One of the Conservative government's first measures was to remove restrictions on international capital flows. This enabled large quantities of finance capital to move abroad in search of the most profitable outlets, rather than being invested domestically so as to increase production and employment in Britain. It has also enabled multinational capital to further dominate the economy, tying British production into a restructured international division of labour, in which investments serve international rather than national markets. This changes the position and power of national workforces: they can more easily be played off against each other, but their ability to disrupt production on a larger scale is much greater[37].

Removal of workers legal rights. Legislative changes have imposed restrictions on collective action by workers and trade unions - such as the banning of secondary picketing and the insistence on formal balloting as a precondition for industrial action. Other attacks on employment include undermining the ability of wages councils to protect workers in badly paid sectors, and weakening protection against unfair dismissal.

In general there has been an increase in the scope of operation of market forces, as a means of disciplining labour and promoting capital restructuring, so as to facilitate future profitability and accumulation. As an indication of the impact of these measures, the Bank of England reported that the rate of return on capital was by mid-1988 above the average of Britain's industrial competitors[38].

PHOENIX FROM THE ASHES? THE RISE OF THE NEW CO-OPS

It is no coincidence that the co-ops boom has come about at a time of great social and economic change; the 'material context' of the current crisis - its contradictions and attempted solutions - has contributed to formation and growth of co-ops. Those aspects of crisis and restructuring which are of particular importance to co-ops are:

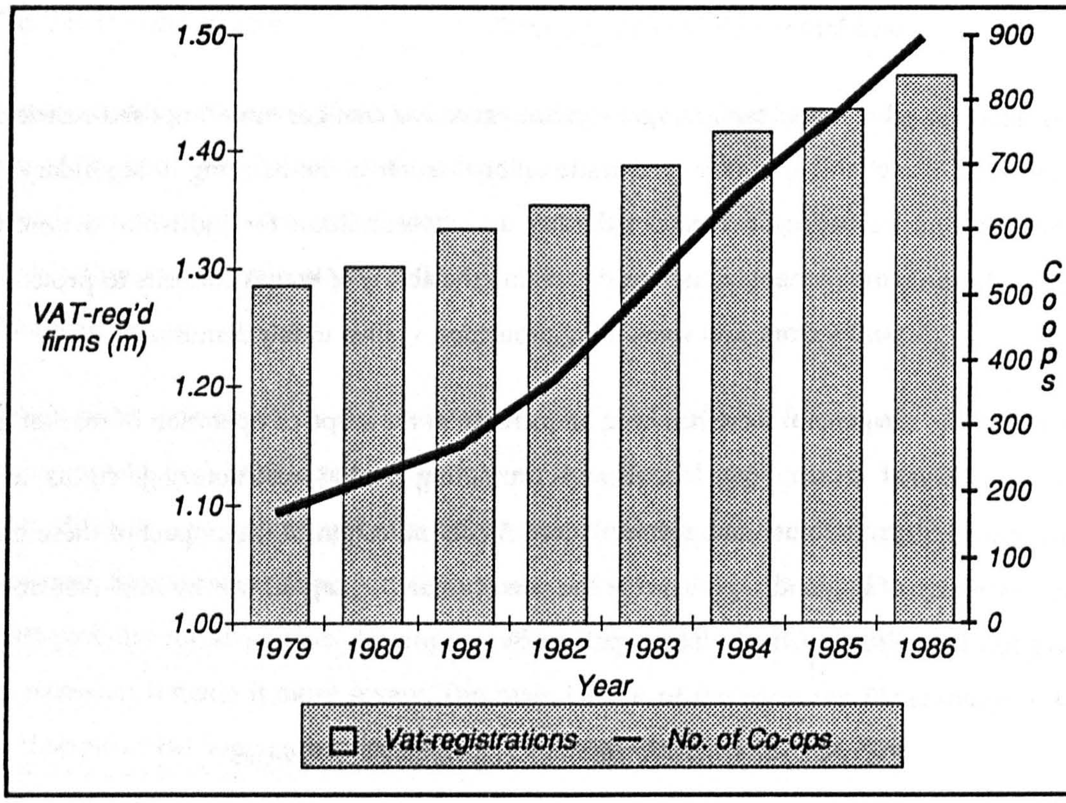
- Unemployment
- Privatisation
- Restructuring of large firm/small firm relations
- The legacy of nationalisation

37 *As happened very quickly during the 1988 Ford strike (Financial Times 16.3.88).*
38 *Quarterly Bulletin, 1988.*

- 'Municipal socialism'
- Support for employee ownership and 'worker capitalism'

Unemployment. The bankruptcy of many firms and major restructuring of others which led to redundancies and record levels of unemployment, especially amongst the young. This has left many workers desperate for any possibility of work, with co-ops being promoted on the basis of their job-creation potential.

Figure 5.4 Small firm and co-op sector growth, 1979-1986



The rise of small firms. An important element of restructuring has been the changing relationship between large and small firms (detailed in chapter 3). This has led to a much increased economic role for small firms. In the past, small firms and self-employment have been relatively less important in Britain than in other comparable countries, but the 1970s and 1980s have seen a reversal of two previously well-established trends - the trend towards increasing concentration by the top 100 manufacturing firms on the one hand, and the secular decline of small firms on the other[39]. Small firms and self-employment are now increasing their role in both manufacturing and services, with this growth concentrated in areas of relative prosperity rather than those worse hit by industrial decline. These changes

39 *Schutt & Whittington, 1987.*

have provided a new role for small firms in the economy and stimulated their growth, and provided an environment which similarly facilitated the establishment of co-operatives, providing openings for co-ops formed in response to the other pressures described here. Although co-ops started from a much lower base, their increasing number has clearly paralleled the growth of small firms (see Figure 5.4).

Privatisation. Besides the restructuring of nationalised industries, either as a prelude to privatisation or at the very least operation according to market criteria, many local authority services have been put out to the private sector. Direct labour forces have been cut back as capitalist firms have taken over many council functions, and co-ops have been promoted to take over such operations.

Nationalisation and social ownership. The failure to consolidate the political and economic gains of nationalisation to benefit the working class, and the subsequent degeneration of nationalised industries into unresponsive bureaucracies, also changed perceptions of social ownership on the left. There has been widespread support for alternatives to capitalist forms of ownership which would bring production more efficiently under workers control, and workers' co-operatives have figured prominently in such thinking[40]. Such an approach has long been favoured by, for instance, the Institute for Workers Control (IWC).

Municipal socialism. In the early 1980s local authorities emerged as the main power base of the left in opposition to Tory policies, particularly the metropolitan counties and the GLC. These councils attempted to move beyond traditional areas of local authority activity, and saw economic intervention as a legitimate and necessary part of their role, particularly in response to high and rising unemployment and the devastation of established industrial activity. Promotion and development of co-ops was widely seen as part of the 'municipal socialist' strategy. This led to further important support for co-ops through the establishment and development of a support network, consisting of CDAs and other organisations providing advice, training in both co-operative and business skills, and finance. The fact that circumstances leading to the emergence of co-ops has also led to the establishment of a wide support network is one of the most distinctive characteristics of this period of co-operative growth.

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40 Although the debate around nationalisation has been marked by a conspicuous absence of considered analysis, which has not helped the search for alternative forms of social ownership.

Employee ownership and worker capitalism. The 1980s have also been characterised by enthusiasm for profit-sharing and employee-shareholding schemes. These initiatives - generally aimed at concealing underlying class conflict, undermining the role of trade unions, and strengthening the link between pay and profitability - encompass workers co-ops as well as a broader range of developments.

It is important to note that these factors have become important over the past decade, and these historically specific circumstances must be taken into account in any assessment of the likely durability of the co-op sector.

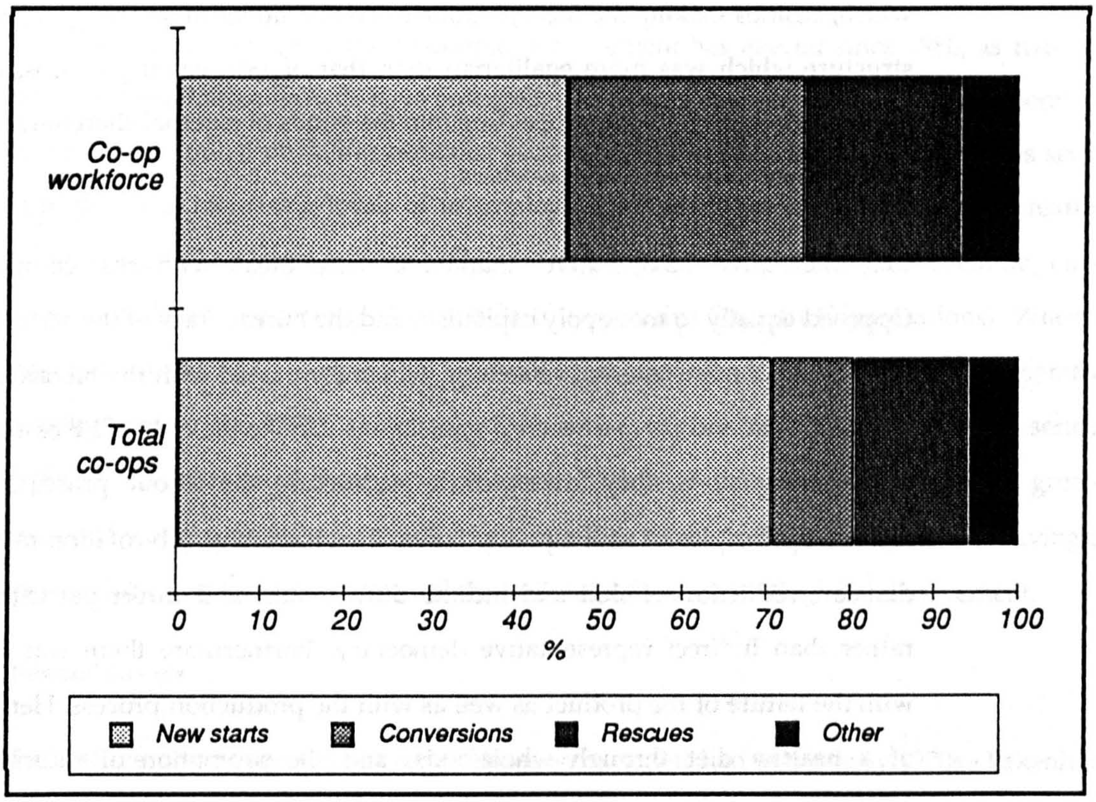
ORIGINS OF THE NEW CO-OPERATIVES

There have been three types of co-operative origin in the present wave: completely new starts, conversions from stable capitalist companies, and rescues of failed or failing capitalist businesses. Figure 5.5 shows the proportion of co-ops, and workers in co-ops, of different origins. The majority of co-ops (72%) are 'new starts', with far fewer conversions (10%) and rescues (14%). Understandably the new starts are small, and account for a relatively smaller proportion of workers (47%) than rescues or conversions of existing companies (29% and 19% respectively). Conversions and rescues originate from capitalist companies in very different circumstances; new start co-operatives tend to stem from either the alternative movement or, more recently, specifically as attempts at job creation. Each will be discussed in more detail below.

Conversions

In 1951 the Christian Socialist Ernest Bader became the first contemporary capitalist to give his company away to the workers, when he established the Scott Bader Commonwealth from his successful chemical company. Bader considered that the best hope of establishing a co-operative commonwealth nationally lay in persuading other benevolent capitalists to do the same, and established an organisation which later became known as ICOM (Industrial Common Ownership Movement) to promote this objective. Bader hoped to appeal to a philanthropic motive amongst his fellow capitalists, and failed to recognise that the circumstances under which capitalists would be tempted to give away or even sell their companies to the workers are extremely limited. Even so, this strategy was pursued by JOL (Job Ownership Ltd), formed in 1978 under the guidance of Robert Oakeshott. JOL considers that co-operatives are formed out of enlightened self-interest, and that their main benefits will be higher productivity and greater efficiency than in the conflict-laden environment of a capitalist firm. Their favoured strategy was to focus attention on the owners and managers of small and medium-sized businesses, in the hope that they could be persuaded to convert to a co-operative form. However, JOL's attempts have generally failed to generate a response and there have been very few conversions.

Figure 5.5 Distribution of co-ops and workers according to co-op origins, 1986



'Alternative' co-ops

In the mid-1970s the co-operative sector received a boost from another quarter. Many of those who had formed collectives from the 'alternative culture' of the 1960s began to seek a formal legal structure which accommodated aspirations of a non-hierarchical and non-authoritarian way of doing business, and began to establish workers' co-operatives, often in wholefood distribution and radical printing, publishing and bookselling. This movement had an anarchist and utopian ideology, and grew from the protest movements of the sixties and a more general concern with environmental issues and an emphasis on human-scale organisations, in another link with Bader's mentor E.F. Schumacher.

This impetus to establish co-operatives was given a boost by the passing of the Industrial Common Ownership Act in 1976, with all-party support. This Act was the first major piece of new legislation affecting specifically co-operatives since the Industrial and Provident Societies Acts in the nineteenth century, which first allowed their incorporation with limited liability. The ICO Act defined 'common ownership and co-operative enterprises'[41], and gave access to certain government funds for organisations meeting this definition, through Industrial Common Ownership Finance (ICOF). ICOM also drew up a set of 'model rules' which, besides making the incorporation of co-operatives more straightforward, provided a structure which was more egalitarian than that of 19th century co-ops, and discouraged degeneration through control passing into the hands of external shareholders or through the employment of non-member workers.

The 'alternative' co-operatives marked a sharp break with past co-operative tradition. Opposed equally to monopoly capitalism and the bureaucracy of the state they attempted to develop egalitarian internal structures, which contrasted with the hierarchies characteristic of both public and private sector organisations. Unlike the older CPF co-operatives and the newer conversions, they attempted to restructure the labour process. Their objectives included principles of skill equality rather than hierarchy, job rotation rather than detailed division, reduction of skill and income differentials, and direct participative democracy rather than indirect representative democracy. Furthermore there was frequent concern with the nature of the product as well as with the production process. Hence the promotion of a healthy diet through wholefoods, and the promotion of radical views through publishing and printing, and ventures into energy conservation. They tended to support efforts to develop a strong and coherent co-operative sector, and have been active within ICOM.

Despite their collective ethic, such alternative co-operatives retained a peculiarly isolationist perspective towards links between the co-operative movement and the labour movement and other progressive forces. Their rejection of many aspects of the economic and social structure extended beyond public and private sector corporations to include the trade union movement and state organisations. Most alternative co-operators were (are?) middle class idealists with little experience of the labour movement, sharing bourgeois suspicions of trade unions and the working class, and their concern has been with internal organisational

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41 See Appendix 1 for definitions of a co-operative.

reform rather than building up links outside of the sector. Like those promoting conversions, alternative co-operatives saw the co-operative movement as a third sector of the economy, which would grow without the need for strong political links and economic support. In fact this 'third sector' approach has characterised much of the co-operative movement, and is still a strong influence within ICOM. It is associated with a political neutrality and a conception of a 'Co-operative Commonwealth' which harks back to the ideas of nineteenth century Christian Socialists such as E. V. Neale and Thomas Hughes.

The isolationist position of the co-operative movement has altered since 1980, as two new areas of co-operative growth have emerged. The first is the establishment of co-operatives as 'rescues' of failed or failing capitalist businesses; the second is new co-operatives set up in response to increasing levels of unemployment (sometimes referred to as 'job creation' co-operatives). The latter are generally associated with local authority intervention, either directly, or indirectly through local CSOs (Co-operative Support Organisations). Whereas the two forms of co-operative growth just described characterised co-operative development in the 1970s, the changed economic environment and much more serious recession has stimulated these new initiatives. Both have been aimed at securing a greater degree of worker control over production as well as the more limited objective of saving or creating jobs, and both have required the building of links with the labour movement.

'Rescue' co-ops

The first rescue co-operatives of recent times were established in the early 1970s - Fakenham Enterprises in Norfolk, Leadgate Engineering in Co. Durham, and Bardrec Engineering in Lanarkshire[42]. These efforts resulted from worker occupations and were part of the much wider wave of occupations in the early 1970s described earlier.

Much better known are the three established with with government assistance while Tony Benn was Minister of Industry in 1974-5 - *Scottish Daily News*, Kirkby Manufacturing and Engineering, and Triumph Meriden Motorcycles (SDN, KME & TMM). These efforts have been reviewed extensively elsewhere[43], but certain points are worth mentioning here. Firstly, in all of these cases there was strong shopfloor resistance to the original closure, but not necessarily any strong initial feelings in favour of establishing a co-operative. The initial

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42 Oakeshott, 1978, p. 108.

43 See Eccles, 1981; Oakeshott 1978, chapter 7; Coates 1976 and Clarke 1983c on all three 'Benn' co-ops; Clarke, 1983a, on SDN; Fairclough, 1986, on TMM; Wajcman, 1983, on Fakenham; Paton, 1987; Thomas & Thornley, 1988.

suggestion usually came from local trade union officials, sometimes with the backing of the Institute for Workers Control. Secondly, in none of the cases were the external market conditions which contributed to the failure of the capitalist firm addressed. Thirdly, none received sufficient capital funding, from the state or elsewhere, to give them any realistic chance of becoming established on a sound commercial basis in these difficult circumstances. Fourthly, very little attention was paid to establishing new co-operative working methods (except perhaps at Meriden) and organisational structures, nor to involving the mass of the rank and file workers in the running of the co-op. The combination of these difficulties made success in either commercial or co-operative terms elusive. The more radical supporters of these ventures hoped that they would provoke a crisis of dual power and the beginnings of a restructuring of industry under worker control. Instead their achievements were more limited: jobs were provided for several hundred workers who would otherwise have been unemployed (750 at KME, 400 at Meriden), and the co-operative option was raised as a possibility for taking over capitalist firms. The experience did demonstrate the severe limitations on restructuring possible within individual firms while their relationship to the rest of the capitalist market economy remains unchanged.

From the mid-1970s until 1986 some 80 rescue co-ops have been established in Britain[44]. These have all been smaller and more limited in scope, generally (but not always) aiming to convert only part of the failing company into a co-operative - and consequently offering employment for only part of the workforce. While some job losses and restructuring prior to setting up a rescue co-op are now standard practice - and are exactly what many capitalist employers have attempted to achieve - saving at least some jobs under worker control may be an acceptable strategy if worker resistance to *any* redundancies has failed. Given the almost total lack of central state funding for co-operatives, such rescue co-operatives are probably the only ones with any chance of survival.

Rescues are one area where co-operatives, CDAs and trade unions have been working most closely, and their growing experience of establishing such ventures is valuable. However, much remains to be done to promote the conditions under which rescues can take place successfully. A few CDAs have concentrated on rescues on the basis that, if suitably restructured, rescue co-ops will have a greater chance of survival and create more jobs than

44 *Paton, 1987.*

the very small new starts. Certainly there are grounds for arguing that development workers' attention is more productive when devoted to a small number of rescues than spread thinly across a larger number of small, new co-operatives, each of which requires a fairly high level of support. Sheffield CDG has adopted this approach, promoting the idea to trade unionists as a strategy for dealing with threatened business closures if more traditional methods of defence fail. Although there have been some successes, rescues face very difficult problems, because of the very short time available to establish a co-operative before the liquidator of a collapsed firm sells off valuable assets, and the complex negotiations necessary with the previous owners. There are also problems securing adequate finance for what remains a high-risk venture, and in a large rescue substantial amounts of external finance may be required. Finally, the conversion to a co-operative involves introducing new forms of organisation and control in a short space of time, often to workers who have considered the co-operative option as a last resort.

A further attraction of rescue co-ops is that they involve strengthening the links between the trade union and co-op movements, which is essential if the sector is to grow to become a significant force. Much can be learned from the experience of Italy, where since 1970 trade unions have supported efforts to form co-operatives from collapsed firms, and rescues have become commonplace[45]. In many cases the co-op federations and trade unions have been far more interventionist than has been the case in Britain, where CDAs tend to support 'bottom-up' development strategies responding to grass-roots initiatives. Support for rescues and links to trade unions are major reasons why the co-operative sector in Italy has expanded so rapidly and is now the largest in western Europe.

LOCAL AUTHORITY INTERVENTION AND THE GROWTH OF CSOs

The economic crisis of the 1970s and 1980s has seen an expansion of the interventionist role of local authorities. In the past their activities had been limited to a widely accepted range of municipal service provision - public transport, roads, housing, education - and local politics consisted largely of debates over which party could deliver this provision more effectively[46]. But as a result of the depth of the economic crisis, and the accompanying political polarisation, local government too has become an economic and social

45 *Gherhadi, 1987; Thornley, 1981 & 1983.*
46 *Cochrane 1988.*

battleground between left and right. One manifestation of this is the new phenomenon of economic intervention, or the development of 'Local Economic Initiatives' (LEI's), by Labour-controlled local authorities. Faced with massive increases in unemployment from 1979-81, factory closures and a rapid contraction of the industrial base of many areas, some authorities have attempted to develop economic policies of their own in order to counter this decline.

By 1981 all of the major metropolitan county councils[47], the Greater London Council, and many other town and city councils were controlled by Labour, and represented the party's main power base of opposition to the radical policies being adopted by the Conservative central government; especially as the trade union movement was on the defensive against the impact of rising unemployment on their economic and political role, and legal curbs on their activities.

Local economic policies had a variety of objectives, ranging from employment creation measures, the decentralisation and democratisation of service provision and of 'social ownership', to a more radical restructuring of the (local) economy with the objective of 'restructuring for labour'. In many cases local economic strategy came to be described as 'municipal socialism', particularly in councils on the left of the Labour Party. Although the mix of these policies varied from one authority to another, most were at least partially influenced by the more radical ideas on the left. The broad thrust of these ideas was to provide a local level alternative to both the policies of the Conservative central government, and to the experience of labour in power in the 1960s and 1970s, rejecting its centralised and bureaucratic method of operation as well as its failure to introduce socialist policies.

On economic policy, the new left authorities deliberately countered the 'new right' arguments against state intervention in the economy, aiming to prove that such intervention could create jobs whereas *laissez-faire* policies created unemployment. Local economic strategies were also intended to develop an alternative to traditional Labour policies, which had usually been centralist and concerned with planning from above, with little concern either about the local impacts of national decisions or about the position of the workers in state supported enterprises. The new strategies were intended to create jobs, and to encourage new, more democratic, forms of work, the development of socially useful

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47 South Yorkshire, West Yorkshire, West Midlands, Tyne & Wear, Greater Manchester, Merseyside.

products, and the increased employment of systematically disadvantaged groups, such as women, black workers, the disabled, gay men and lesbians.

The form of these policies varied from one authority to another, depending on political position and local needs. The most detailed and coherent strategy for economic intervention was worked out by the GLC, whose *London Industrial Strategy* specifically aimed to restructure for labour rather than capital. More generally it represented an attempt by local authorities to gain some influence or control over the massive economic changes taking place.

The analytical basis of these policies will be examined more thoroughly in Part III, along with an assessment of their impact on co-operative development. Co-ops were promoted widely by Labour local authorities, as they complemented all three of the strategies mentioned above (employment creation, decentralisation, restructuring). In most cases there was a strong commitment to co-ops as a form of social ownership, providing a contrast to the corporatist bureaucratic past of the Labour party which they wished to avoid, but also as a means of extending democracy at work, part of the concern for grassroots democracy. Thus local authority intervention has included the funding of local Co-operative Development Agencies (CDAs) or other support organisations.

The first of these were formed in Scotland and West Glamorgan in 1976 and 1978 respectively, but most were formed in the early 1980s, the period when municipal socialism was at its most active. Although the initiative for the establishment of CSOs has typically come from local co-op activists, the funding and resources to implement this have almost always come from local authorities, most frequently under Labour control[48]. In a 1986 study, Cornforth and Lewis found that 33 out of 36 CSOs studied were funded by some combination of local authorities in their area, and over half reported that a local authority had played a 'major part' in their establishment. In addition other local authorities have funded co-operative development workers within their own economic development units.

Most CSOs are constituted as independent organisations controlled by a management committee with representatives of local co-operatives and local authorities, and sometimes community activists, trades council and consumer co-op representatives, and private individuals. By 1986 there were 85 CSOs in Britain, although 30 of these were voluntary

48 Macfarlane, 1986.

organisations without full-time funded staff[49]. Their function is broadly to help develop the worker co-operative sector, including assisting the establishment of new co-operatives and the servicing and support of existing ones. Given their small size - the average (mean) number of workers in funded CSOs is 3 - this is a demanding requirement. Local authorities tend to favour the establishment of new co-operatives as a priority, in order to make the most impact in job creation terms; co-operative development efforts are generally concentrated on the unemployed, women and ethnic minorities as groups most disadvantaged in the labour market. While CSOs are sometimes called upon to assist in the establishment of conversion or rescue co-operatives, the majority deal primarily with 'new starts', responding to and developing initiatives brought to them by individuals or groups wanting to form co-operatives. This 'bottom-up' approach has been a strong characteristic of most CSOs, but makes their development strategy mostly responsive; some CSOs - e.g. SCDC in Scotland - have attempted to be more direct in promoting co-operatives.

The establishment of such a wide network of CSOs is one of the most remarkable features of the present co-operative boom, and gives grounds for optimism that the sector will become self-sustaining and less likely to follow previous cyclical trends[50]. It is a new development in the history of worker co-ops, although the retail co-op movement has long emphasised the importance of support organisations to provide both advisory and trading services. But whilst intervention to support co-operatives with training, advice and finance along with efforts to develop more coherent links within the sector are valuable, they are also vulnerable. The ability of local authorities to intervene economically is being restricted by central government policies of funding cutbacks, ratecapping, and legal measures, such as the outlawing of 'contract compliance' policies. The largest and most active local authorities - the GLC and the metropolitan counties - have been abolished, and prospects for the continued existence of CSOs on such a wide scale are less optimistic in the second half of the 1980s. Few, if any, CSOs could survive independently of local authority funding.

The expansion of CSOs mirrors the proliferation of various small business advice and development agencies over the same period. Although the motivation for CSOs is somewhat different,and they face a wider range of problems, the actual functions of the two

49 Cornforth & Lewis, 1985. This compares with an estimated 280 business development agencies in 1987 (Guardian 11.4.88).
50 Cornforth, 1987.

are very similar. Crucially, CSOs are likely to be competing for the same limited funds as business development agencies, which could compound CSO's funding problems.

It is widely thought that CSOs can boost the creation rate of co-operatives in an area, although the effect on the survival rate of these co-operatives is less clear-cut. In the next section I examine the durability of the many co-operatives formed over the last decade.

SURVIVAL RATES

It has become part of co-operative mythology that the survival rate for worker co-operatives is superior to that of small businesses in general. For instance, in the special edition of *The New Co-operator* published in Summer 1986, ICOM claimed that the co-op sector "has already proved its worth over and over again in cost effectiveness and durability, with a staying power demonstrably better than that of small businesses in the private sector. In its *Charter for Co-ops*, the Labour Party claimed that "they have a better record of survival than other small businesses, because co-op members are highly motivated and committed to their enterprise"[51]. Such claims are generally made without any further evidence, but the same is characteristic of small businesses, where varying claims of high/low failure rates are widely aired.

In part such claims by co-operative advocates reflect a need to secure increased funding and hence to present the co-op experience in the most favourable light possible. The extreme sensitivity with which relative co-operative/small firm survival rates are regarded is illustrated in the heated debates in *The New Co-operator* on the subject in 1986/7. Widespread confusion does reflect genuine difficulties in providing uncontroversial evidence to support or rebut such claims. Typically the phenomenon in question is not quantified exactly by available data; however, I have attempted to make the best use of what is available in order to provide an analysis of the survival experience of co-operatives. The work draws upon a similar exercise carried out by Thomas[52].

The survival rate and lifespan of small firms has been the subject of numerous articles in the Department of Trade and Industry (DTI) magazine *British Business* since 1982. Based on data

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51 Labour Party, 1985, p. 7.
52 in Cornforth et al, 1988.

from registrations of businesses for VAT purposes[53], these have generally supported the claims for a relatively high failure rate for small businesses in general[54]. Table 5.4 (column A) presents data on the proportion of small businesses registered in each year from 1974-1985 which remained registered until the end of 1986.

Table 5.4 Survival rates of small firms and co-ops to end 1986, %

Year formed	*Firms* A	*Firms* B	*Co-ops* C
1975	26	42	..
1976	30	45	..
1977	33	47	41
1978	35	49	49
1979	40	53	57
1980	43	55	54
1981	47	58	51
1982	51	61	46
1983	58	67	55
1984	68	75	67
1985	81	85	82

Note:
A - % of VAT-businesses registered in each year, still *registered* at the end of 1986
B - % of VAT-businesses registered in each year, still *trading* at the end of 1986
C - % of co-ops registered in each year, still trading at the end of 1986 (from Table 5.2)

Source: London ICOM (1987), amended; *British Business*

The main findings of the DTI analysis were as follows:

(i) one quarter of firms de-registered within 2 years of initial registration, one half within 5 years and two-thirds within 10 years. The median lifespan of small businesses (registration to deregistration) is therefore 5 years.

(ii) there is a very high degree of consistency in the results over time, i.e. de-registration rates do not appear to depend on the starting year - for a firm registered in 1975, there is a 50% probability that it would have deregistered by 1980; similarly there is a 50% probability that a firm registered in 1980 will have deregistered by 1985. That is, the rate of de-

53 *The data covers all VAT-registered businesses. Although the VAT data does not record employment figures - and so it is impossible to know how many registered firms have less than 200 workers - it is known that 90% had an annual turnover of less than £500,000 in in 1985 (Employment Gazette April 1987). The VAT database is effectively a small firm database.*
54 *British Business 3.4.87 & 31.7.87; Employment Gazette April 1987.*

registration does not appear to have been markedly affected by the recession since 1979/80.[55]

(iii) the likelihood of deregistering is much higher in the early years, and firms are most vulnerable to collapse within years two and three, with a probability of around 15% of any one firm deregistering in each of those years. So about one third of firms which survive their first year deregister in their second or third years. The deregistration rate falls away to about 8% p.a. after 10 years. The average annual deregistration rate for firms is about 11-12% - or about 1 in 9 each year.

Registrations and de-registrations are not the same as business stops and starts, however, and adjustments need to be made to obtain the latter[56]. Table 5.4 (B) presents data on business *failures* rather than *deregistrations*. From this it appears that the median lifespan for small businesses (i.e. the time taken for 50% to fail) is 7-8 years, and that the annual failure rate is about 12% in early years, falling to 6-7% over the longer term. Thus small businesses have a lower failure rate when assessed - more appropriately - by closures than by deregistrations.

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55 This result is surprising, and does not tie in with figures on the number of bankruptcies and company liquidations; these have increased by 180% from 1979 to 1984 (British Business 24.7.87), while VAT deregistrations increased by only 22% over the same period (British Business 31.7.87 and 12.8.83) (the latter representing an unchanged rate of deregistration as the total number of VAT-registered firms has increased). One possible explanation is that within the overall trend of VAT registrations, the reduction in the number of large firms was compensated for by growth in the small firms. Changes in the number of large firms are more likely to be reflected in insolvency data.

I find the VAT data very deceptive on this count, as surely the rate of business failures must have increased in 1980-1982 as the recession deepened. This view is not shared by the DTI, who are convinced that their VAT data is more accurate than the insolvencies data. Their justification is that the VAT sample is much bigger, and that insolvencies may have been affected by technical changes in company and taxation law (conversation with Michael Daly, DTI Small Firms Statistician, 22.9.87).

56 The VAT database actually records registrations and deregistrations of businesses for VAT purposes, while we wish to know the opening and closure of businesses, which may not be quite the same thing. The main differences are:

(i) very small businesses may be excluded from VAT data, as only those with turnover above a certain threshold value are obliged to register for VAT (£21,000 in 1987). However virtually any business which is substantial enough to support one full-time worker will be above the threshold, and those falling below can therefore be safely excluded.

(ii) while formations of businesses and VAT registrations are reasonably synonymous, de-registrations and closures are less so. Deregistrations may take place for a variety of reasons besides closure, including takeover by another firm, a technical change of legal identity (e.g. sole trader to limited liability), or turnover falling below the registration threshold. British Business (3.4.87) provides estimates of the percentage of de-registrations which represent actual closures; these vary from 80% for deregistrations in the first year to 60% in the sixth year, and 50% in the long run. I have made use of this information to estimate the proportion of businesses still trading (as opposed to still registered for VAT), and this data is presented in Table 5.4, column B.

This second series (B) is likely to be reasonably accurate[57]; on this basis the average failure rate for all businesses is probably 9-10% p.a.. Whether this is considered to be 'low' or 'high' is entirely subjective; however it is much below the claim of a BBC TV programme of 6 August 1980 (*Can We Make Jobs*) that "three-quarters of new businesses don't survive the first two years"[58]. There is uncertainty associated with such interpretation of VAT data, but it does at least provide a comparative starting point for co-operatives.

Figure 5.6 Survival rates of co-ops and small firms, to end 1986

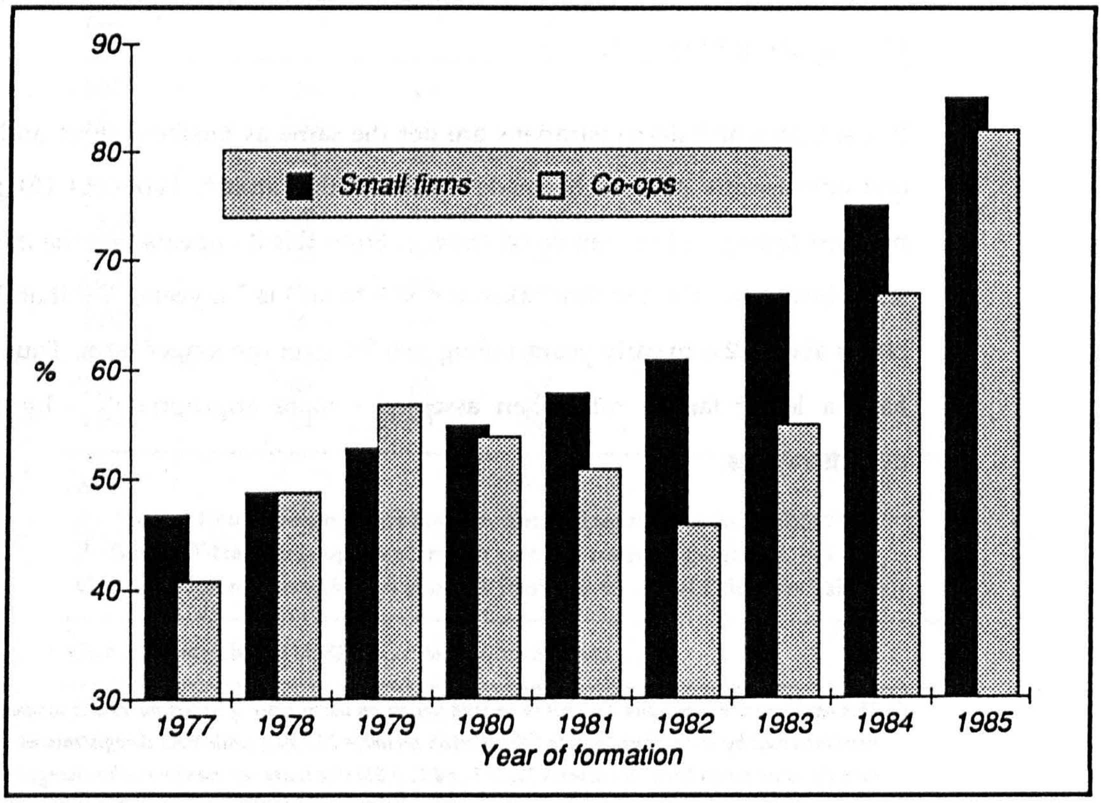

Table 5.4 (C) also gives survival figures for co-operatives, calculated on the same basis, whilst survival rates for co-ops and small businesses are both presented in Figure 5.6. From this we can conclude that:

- the survival rate for co-ops appears to be worse than that for all small businesses; certainly there is no evidence to back up the widespread claims that co-ops have a superior survival rate;

57 although any error is likely to be in the direction of over-estimating the failure rate (i.e. under-estimating the lifespan) - see British Business 3 April 1987).

58 quoted in Scott, 1982.

• only for 1979 is the co-op survival rate better than that for small businesses formed in the same year;

• the survival rate for co-ops deteriorated sharply between 1979 and 1982.

• the overall survival rate for co-ops is 66%[59] - that is, two thirds of all co-ops set up between 1945 and 1986 were still trading at the end of that period. No comparable figure for all businesses are available, as the formation of co-ops is heavily concentrated in recent years.

These findings must be qualified by the knowledge that data on failed co-ops is much less complete than on surviving ones, leading to an *underestimate* of the co-op failure rate.

Survival rates for co-ops have not demonstrated the same consistency over time as those for all businesses. It is striking that in both absolute terms and relative to all businesses survival rates improved over the period to 1979, and then declined until 1982, before starting to improve again. Thomas has carried a more extensive and detailed analysis of survival rates; calculating an alternative measure of survival, that is closures in any year as a proportion of the stock of co-ops in that year. He reaches the same conclusion as above, that failure rates for co-ops became significantly worse after 1979, particularly in 1983 and 1984, before improving slightly in 1985. However, the problem with this measure is that it can an increasing failure rate if the co-op sector is rapidly expanding (which has been the case over the last decade) even when the median lifespan is constant.

The increased failure rate can also be related to the growth of CSOs. It was during this period (1981-1984) the bulk of local CSOs were formed[60], with the biggest increase in 1981 and 1982. In their early stages CSO's tended to be concerned with assisting in the formation of the maximum number of co-operatives, and at the same time lacked experience; more recently the situation has stabilised, so that the formation rate of co-operatives has been reduced, but the survival rate has increased, as CSO development workers have gained experience and undertaken more intensive support strategies. Furthermore, CSOs were concerned primarily with groups suffering discrimination in the labour market, who tended to lack skills and experience, and their co-ops had a high failure rate, particularly before CSO experience was developed.

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59 see Table 5.2.
60 Cornforth & Lewis, 1986.

It therefore appears that the formation rate of co-ops increased in response to :

(a) recession and crisis in the economy leading to

- restructuring by capital which provided a new role for small firms
- rapidly increasing unemployment

(b) the emergence of local authorities as the main electoral power base of the Labour Party and the adoption of 'local economic initiatives', which in turn led to

- attempts to combat unemployment and more radical intervention policies
- the establishment of local CSO's to assist co-ops.

Circumstances giving rise to an increase in the co-op formation rate are different to those for co-op survival. Whilst co-ops have arisen as a reaction to adverse economic circumstances (leading to unemployment and restructuring), those same economic conditions are not favourable to the survival of co-ops. Although CSO's appear to have contributed to an increase in the formation rate of co-ops, they were also initially associated with a reduced survival rate.

Moving on from this broad picture of the co-op sector as a whole, we can examine the characteristics of its recent growth - where has it taken place regionally, and in terms of industrial sectors, and how does this also compare with the experience of small firms? Certainly the wider process of economic restructuring taking place has had a varying impact on both different regions and sectors, and given that the growth of co-ops is a product of that restructuring then it is to be expected that their occurrence and survival will similarly vary.

THE GEOGRAPHY OF CO-OPERATIVE DEVELOPMENT

Economic restructuring in the 1980s has had very different effects across Britain. Despite denials from senior Conservatives, the North-South divide is a real and growing phenomenon. A glance at a regional breakdown of economic statistics - unemployment, income per head etc - as well as social statistics relating to health and living conditions reveals a distressing picture. Relative to the south, people living in Scotland, Wales and the north of England, and in inner city areas generally suffer from a higher rate of unemployment, lower wages for those in work, much greater dependence on state benefits, and gain less from economic growth. They are less healthy, have less material possessions, and die younger.

Co-ops and regional economic inequalities

The explanation for this must be located in events occurring at the national and international level, rather than blaming the inhabitants of these regions. Attempts by capital as a whole to restore profitability have led to the closure of many individual firms, with a consequent impact on the level of unemployment. The most vulnerable firms have been those in manufacturing; not only have the traditionally declining shipbuilding, textiles and clothing sectors continued to contract sharply, but they have been joined by the engineering, electrical and vehicle industries, precisely those industries which provided the basis for the long postwar boom. Regions of the country which had concentrations of such industries suffered more severely from recession than those based on newer industries, and the limited compensatory growth in services has tended not to be in the older industrial regions. However, Lloyd & Schutt point out that:

> much of what happens in a region ..... is powerfully associated not simply with the industrial sectors to which its capital stock is structurally assigned but with the 'structure' of trans-national and national companies' branch plants, divisional headquarters and corporate control centres ..... the incidence of redundancy ..... while it has some clear sectoral elements and is also clearly some function of the age of the capital stock, is more clearly interpreted through a perspective which focuses on corporate responses to recession and restructuring as a time of emerging new process technology[61]

According to this view the fate of regional economies is dependent not only on the age and sectoral characteristics of their industries, but also of the way in which firms or enterprises in different areas fit into the national and international division of labour. At a time of major restructuring this division of labour undergoes substantial change, and regions (or even countries) characterised by branch plants will have their fate determined by economic processes and corporate decisions originating outside of the region. Past processes of centralisation and concentration of capital have increasingly left industry in the hands of national and multinational corporations, particularly in regions where 1960s and 1970s regional policy had as an objective the attraction of such inward investment, to compensate for regional decline as heavy industry (coal, iron & steel, shipbuilding etc.) was closed down. Such industry is vulnerable to decisions taken outside of the region taken in the

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61 Lloyd & Schutt, 1985, p. 20.

interests of company profitability regardless of the impact on the locality. As an example, the perceived success of Scotland's attempts to attract inward investment in the area of high-tech electronics (the 'Silicon Glen' syndrome) is unlikely to provide a sound basis for long-term prosperity; such 'footloose' investment can depart as quickly as it arrives (witness the decision of US multinational National Semiconductor in 1985 to commence retrenchment in response to a perceived dip in international demand for its chips, before a much heralded £100m expansion at its same Greenock plant was even complete)[62]. Furthermore many overseas companies have been explicitly anti-union (including most if not all foreign electronics companies in Scotland), a policy which is easy to implement when demand is high and business is booming, but leaves the workforce with little defence when redundancies are announced. Whilst multinational investment in such regions does provide openings for small firms (and co-ops), the latter will always be vulnerable given their peripheral role (providing flexibility) in firms' overall accumulation strategies.

Schutt and Whittington[63] have analysed in more detail the restructuring strategies of large firms, particularly with reference to their impact on North-West England. Fragmentation strategies have been described in chapter 3 in general terms, but it is instructive here to follow through their regional impact. Schutt and Whittington point out that areas with high concentrations of large manufacturing plants are particularly vulnerable to fragmentation by

> breaking up old concentrations of employment and freeing capital and contracts for renewed locational competition [which] may exacerbate inter- and intra-regional differences. ..... Indeed, where the motive for fragmentation is the reassertion of control over the labour process, firms may deliberately disperse investment and contracts as far away as possible in order to inhibit inter-plant combine organisation[64].

The vulnerability of such regions to economic processes and corporate responses originating elsewhere provides an impetus for reasserting localised control over production. This argument has been used as support for decentralised economic activity, under local control, and in particular has been used in support of the development of co-operatives. The CDA, for example, quoted the following hypothetical example in its 1984 directory:

> The international oil-based company comes to a midlands town with a blaze of publicity. "Hundreds of new jobs" shouts the local paper. Only three years later

62 *Jefferis, 1984.*

63 *Schutt and Whittington, 1984, 1987.*

64 *Schutt and Whittington, 1987, p. 11.*

> a small announcement reads, "The Northampton branch is to be closed and the work transferred to our office in Holland." Contrast this with the five worker co-operatives formed in the last few years, creating 50 new jobs. These fifty decision-making members live in the town, with their families and friends, their roots are deep in the local community and there is no more likelihood of them deciding to transfer their own jobs to Holland than fly to the moon[65].

Co-ops which have been formed locally are much less likely to relocate outside of the region than branch plants controlled from elsewhere, and are likely to have stronger links with and attachment to the community, although this argument can also be applied to small businesses in general. Schutt & Whittington's analysis suggests that large firm fragmentation strategies will lead to small firm growth which is highly vulnerable, and that "because of the dependent nature of much small firm growth, high 'birth rates' in particular areas need not indicate a healthy, entrepreneurial economy so much as reflect the breaking down and shifting of employment, whether locally or elsewhere"[66] and that such small firms are "unlikely to achieve secure and locally controlled economic development" because of their dependent nature and vulnerability to large firms, despite the distance between them in formal ownership terms.

Despite being under nominal local control, all types of small firms are vulnerable to changing large-firm strategies. Sub-contractors and suppliers servicing the activities of large firms are directly vulnerable - indeed the use of such companies to complement large firm activity is often specifically to can absorb fluctuations in demand and output. Alternatively, 'independent' small firms may find new market niches opened up by the restructuring of large firms, but these are always liable to attract renewed competition from large firms if they prove successful - for an example of this see the later chapter on wholefood co-operatives. Other small firms may find new opportunities for competition, for instance if cheap, redundant capital equipment is available from large firms, or skilled workers made redundant in the face of changing process technology may attempt to establish their own businesses, but frequently have to compete on the basis of low wages or poor working conditions. Small firms competing on the basis of such intense exploitation are always vulnerable to sudden shifts in markets or costs.

An example of a co-operative emerging from large firm rationalisation is the Traffic Systems Co-operative in Sheffield, established by four engineers made redundant by GEC Traffic

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65 CDA, 1984, p. v.

66 Schutt & Whittington 1987, p. 21.

Automation. The co-op has won contracts for traffic signal maintenance in the face of fierce competition from their former employers. The workers have managed to avoid the worst aspects of self-exploitation and pay themselves at union rates, but it is instructive that an important element in their success was securing a major contract from Sheffield City Council. Nevertheless even efficient small firms or co-ops are ultimately vulnerable if they become successful and are viewed as a threat by their major competitor(s), who can always start and win a price war.

The type of small firm growth which results from restructuring in a particular locality, and the extent of that growth, will depend upon the existing sectoral characteristics of industry, and the changing role of geographical distribution as the nature of production and accumulation changes. Recent years have therefore seen very different formation rates for new businesses across regions. The regional distribution of small firms[67] and co-operatives is shown in Table 5.5, with more detailed figures for co-ops in Table 5.6.

Table 5.5 Regional distribution of co-ops and small businesses, 1986

	All VAT-Registered Businesses			*Co-operatives*				
Region	*% total Stock*	*Formation rate (gross) %*	*(net) %*	*% total stock*	*Co-ops formed*	*Co-ops trading*	*Survival rate*	*Co-op jobs*
Scotland	7.9	66.9	9.7	8.4	100	74	74.2	443
North	4.3	71.4	8.6	7.2	93	63	67.9	285
Yorks & Humbs	8.3	74.4	8.6	10.1	132	89	67.3	545
North West	10.3	80.2	6.7	9.5	125	84	67.1	430
Wales	5.7	63.7	9.0	7.0	93	62	66.6	337
West Midlands	9.0	78.7	11.2	7.0	96	62	64.3	269
East Midlands	7.0	75.1	12.1	9.0	111	79	70.9	953
East Anglia	4.2	70.4	12.2	2.6	31	23	73.9	116
South West	9.9	71.0	11.7	4.0	49	35	71.2	252
London	33.6	94.3	14.9	31.1	444	274	61.7	1528
South East*	..	..	..	4.1	56	36	64.8	398
Total	100.0			100.0	1331	883	66.2	5556

Note: London and SE are grouped together in VAT data. See Appendix 10 for details of standard regions.

Source: as for Table 5.4

67 *see earlier section on survival rates for further information on this data.*

There have been differential formation rates of new firms across regions over the period 1980-1985; the highest rate was in London and the South East (15% increase), around average rates in the South West, East Anglia and West and East Midlands, and below average rates in Yorkshire, the North and North West, Wales and Scotland. Similarly, the rise in self-employment has been concentrated in the South[68]. Those areas which have suffered most during the recession have also demonstrated the lowest rates of net new business formation. In addition, in Yorkshire, the North and North West, the low growth rate is not due to a low gross formation rate (which is comparable with that in other areas), but to a low survival rate for businesses once created. This suggests that the economic decline caused by restructuring in these regions is widespread, and not limited to the industries which formerly dominated these areas. Wales and Scotland are different: they boast low gross formation rates but a survival rate which is similar to that in the midlands and South-West, reflecting the impact of the highly interventionist, publicly funded, Scottish and Welsh Development Agencies in these depressed areas. More generally the figures confirm that a shift in economic activity from the North to the South is taking place.

Given that the growth of co-operatives has been stimulated by the severe recession, it might be expected that formations of co-ops would be concentrated in the more depressed regions. The largest single concentration of co-ops is in London, with over 30% of the total. However, this is in line with the proportion of all businesses based in London and does not represent an unduly high proportion of the total; in fact the overall distribution of co-operatives is very similar to that of small firms. The main exceptions are the South West and East Anglia, which have the smallest number of co-ops in both absolute terms and relative to all firms, and the North, which has a relatively high proportion of co-ops. This suggests that co-ops are also subject to the general economic environment and respond primarily to the same influences as all small firms; that is, the major part of the regional variation in co-op formation rates is explained by the variation in small firm formation rates. On a regional level at least these general trends are more important than any co-op-specific factors.

It is surprising that no evidence of a regional 'co-op culture' is revealed. The history of British worker co-ops suggests that they have traditionally been strong in the East Midlands, particularly in Leicestershire and Northamptonshire, and yet there is no strong

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68 Regional Trends, 23 (1988).

evidence of a concentration there today. Other European countries have regional concentrations. Attempts to inspire co-operative development in Wales have drawn heavily upon the experience of Mondragon, where co-ops are firmly implanted in the regional culture. Elsewhere in Spain, Catalonia had a strong tradition of collective organisation during the Spanish Civil War[69], and today boasts a flourishing movement of co-ops and SALs (*Sociedad Anonyme Laboral*). In northern Italy, co-ops are common in the Emilia Romagna region around Bologna.

Table 5.6 Distribution of co-ops by city/borough, 1986

	Co-ops Trading	*Co-op Jobs*		*Co-ops Trading*	*Co-op Jobs*
SCOTLAND	**74**	**443**	**EAST MIDLANDS**	**81**	**953**
Glasgow	*35*	*132*	**EAST ANGLIA**	**23**	**116**
Edinburgh	*17*	*50*	*Norwich*	*9*	*28*
NORTH	**65**	**285**	*Cambridge*	*13*	*82*
Tyne & Wear	*35*	*168*	**SOUTH WEST**	**35**	**252**
Cleveland	*13*	*34*	*Bristol*	*20*	*114*
YORKS & HUMB	**91**	**545**	**LONDON**	**273**	**1528**
Sheffield & S.Yorks	*37*	*294*	*Brent*	*9*	*56*
Leeds	*15*	*64*	*Camden*	*39*	*198*
Bradford & W.Yorks	*28*	*141*	*Hackney*	*42*	*121*
NORTH WEST	**85**	**430**	*Haringey*	*18*	*90*
Merseyside	*14*	*51*	*Islington*	*35*	*221*
G.Manchester	*40*	*205*	*Lambeth*	*27*	*91*
Lancs	*23*	*102*	*Southwark*	*14*	*66*
WALES	**62**	**337**	*Wandsworth*	*5*	*91*
W.Glamorgan	*31*	*162*	*Tower Hamlets*	*8*	*67*
S.Glamorgan	*7*	*35*	*Newham*	*5*	*20*
WEST MIDLANDS	**62**	**269**	**SOUTH EAST**	**36**	**398**
Birmingham	*16*	*54*			
Coventry	*22*	*88*	**TOTAL**	**883**	**5556**
Black Country	*17*	*87*			

Source: as for Table 5.2

Information on British co-ops is characterised by a lack of detail at a regional level. There are concentrations of co-operative activity in areas within regions, particularly in urban areas, as Table 5.6 demonstrates. As these are generally the areas where CSOs are active, this raises the question of what impact CSOs have had on co-op sector growth.

69 Dolgoff, 1974.

The impact of CSOs on co-op growth

The impact of CSOs on the growth and development of the co-operative sector is not straightforward. To a certain extent the establishment of CSOs and an increase in the number of co-ops are both outcomes of the same phenomenon - a local level response to an economic crisis in which the policies of the central state are aimed at reinforcing the power and wealth of the capitalist class at the expense of the interests of the majority. Therefore it is to be expected that the two would be associated. However, there is also reason to believe that the establishment of CSOs does reinforce and encourage co-operative sector growth. Taylor has long held that a CSO will increase the rate of growth of co-operatives in an area above what it would have been without the CSO[70]. He examined the growth of co-ops between 1980 and 1982, when their number increased from around 200 to around 350. He found that in areas without CDAs, the number of co-ops had grown by 24%, compared to 131% in areas with CSOs. However, it is important to remember that correlation does not imply a causal relationship. Certainly Cornforth and Lewis in their survey of CSOs found it difficult to isolate the influences on co-operative growth:

> ... our own survey suggests that higher rates of co-operative formation can be expected in urban areas with high levels of unemployment. For example CSOs in these areas had a higher formation rate of co-operatives than those in smaller cities and rural areas, with lower unemployment levels. This finding supports the view that many co-operatives are being created by the unemployed in their desire to create jobs[71]

although they do conclude that CSOs have been substantially responsible for this growth.

Co-ops are more likely to be formed in urban areas with high unemployment, but then CSOs are more likely in these areas as well (particularly if there is also a Labour local authority). Cornforth & Lewis attempted to investigate this further by looking at the number of co-operatives assisted by CSOs. In 40 areas, they found that only 23 out of 450 co-ops formed over the period had been established without the assistance of CSOs. My own survey evidence supports the active role of CSOs, even if not to the same degree, with 50% of responding co-operatives receiving assistance from a CSO during formation, and 55% since being formed. However, demonstrating this does not mean that the same co-operatives would not have been formed without the presence of a CSO, if other factors were important.

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70 Taylor, 1984.

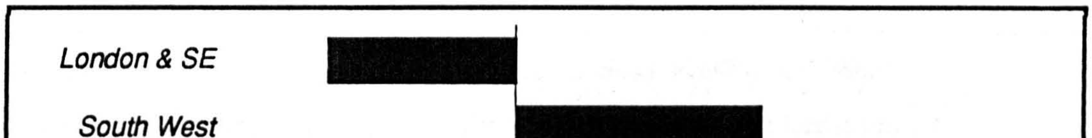
71 Cornforth & Lewis, 1985, p. 34.

In London for instance, some 64% of all co-operatives were concentrated in 6 out of 32 boroughs in 1986 (see Table 5.6). Six of these boroughs have active CSOs, and one has an active section within the council's Economic Development Unit in support of co-op development. Certainly the contrast between Tory-controlled Wandsworth, with no CSO and 5 co-operatives, and Labour-controlled Islington, with a long-established CSO and 35 co-operatives, is striking. One example is hardly conclusive, however, and it is easy to find counter examples - for instance Waltham Forest with only 1 co-op, Newham with 5 and Tower Hamlets with 8, all of which have both a CSO and high unemployment.

It is very difficult (if not impossible) to show empirically that CSOs have had a major impact on co-operative formation. However, circumstantial evidence certainly suggests that this is the case. In addition, *a priori* reasoning gives strong grounds to believe this to be true: CSOs are active in promoting the idea of workers co-ops, offer intensive advice, support and training, can assist in the securing of finance and the developing of links with other co-ops. There is no reason to believe that this can have anything other than a positive effect on the formation rate of co-ops.

However, the emphasis of CSO activity on the formation of co-ops may have an adverse effect on the survival rates of co-operatives. Given that many recent co-ops have been formed by the young unemployed, often with enthusiasm but little in the way of training and skills, a high failure rate would be expected. Although continuing support is recognised by CSO workers as important, the pressure from local authorities as the main source of funding is to maintain job creation rates rather jobs saved. Pressure on limited CSO resources means that inevitably, less time is devoted to servicing existing co-operatives than would be desirable; if it is true that CSOs do increase formations, but can maintain only limited support, then it is likely that the failure rate in CSO areas would be higher. In this context it is interesting to note that the regions with the lowest number of co-operatives (both absolutely and relative to the share of all businesses in the region) have the highest survival rates.

Figure 5.7 Regional survival rates of co-ops to end 1986, relative to average of 66%



Whilst the proportion of co-ops in the South West and East Anglia is low compared to the proportion of all businesses in those regions, they have the highest survival rates (see Table 5.5 and Figure 5.7). These two regions have also had the most limited CSO activity until very recently, thus supporting the conclusion that whilst CSO's have a positive impact on co-op formation rates, in periods of rapid expansion survival rates decline. This is further supported by evidence that the region with the highest relative proportion of co-ops (the North) has almost the lowest survival rate. In fact an inverse relationship between relative concentration of co-ops and survival rate holds for all regions except for the West Midlands and Scotland. The reason for a combination of low concentration of co-ops and low survival rate in the West Midlands is a mystery, but the opposite in Scotland - high on both counts - is likely to be due to the intensive support offered to both new and existing co-ops by SCDC. Figure 5.7 shows the survival rates of co-ops in different regions, compared to the overall figure of 66%.

INDUSTRIAL DISTRIBUTION OF CO-OPERATIVES

There has always been a tendency for co-operatives to be concentrated in particular industrial sectors. In the nineteenth century they operated widely in printing, bootmaking, metal-working and building, all industries where hand-craft and small-scale production predominated. Some of these areas - particularly where production technology and the dominant form of the labour process have remained largely unchanged - are still important today. This not just a British phenomenon, as concentrations of co-ops are found in particular industries in many countries[72], although the specific industries do vary depending on the particular relations between co-ops, state and markets.

Table 5.7 demonstrates the current sectoral distribution. Relative to the activities of all businesses, co-ops are concentrated in production and general services. They are under-represented in agriculture, building, wholesale distribution, transport and motor trades. But these broad classifications conceal further concentrations - production co-operatives operate largely in printing, publishing, engineering and clothing trades; service co-ops are in media, arts and entertainment, wholesale and retail in food (particularly wholefoods). It is these more detailed concentrations which are interesting, as the broad categories conceal huge differences in the nature of work and the production process. The characteristics of the sectors with a large co-op presence suggest the nature of industries which favour co-op establishment and growth - they are still relatively small scale and dominated by labour-intensive craft production on a medium or small batch basis, rather than mass production. In addition light engineering and clothing are sectors in decline. Co-ops are noticeably absent from the industries which dominated the postwar boom - chemicals, large scale mass production industries (motor vehicles, electrical and consumer goods) or even the older capital intensive (but not mass production) craft-based industries, such as shipbuilding and heavy engineering. Recent growth has also produced a concentration in (labour-intensive) services, particularly in food distribution, bookselling, arts & media, and business services.

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72 Ben-ner, 1988.

Table 5.7 Distribution of co-ops and small firms by industrial sector

	% VAT-Reg businesses (end '85)	*Co-ops formed (end '86)*	*Co-ops trading (end '86)*	*Co-ops % of total stock*	*Co-ops Survival rate*	*Co-op jobs*
AGRICULTURE	12.5	25	17	1.9	68.3	..
BUILDING	14.6	132	66	7.5	49.9	300
Gen.building	..	*84*	*38*	*4.3*	*44.9*	*201*
CATERING	8.5	71	46	5.2	64.6	192
FINANCE & PROFESSIONAL	7.2	80	56	6.4	69.6	312
Education & training	..	*44*	*28*	*3.1*	*62.5*	*180*
MOTOR & TRANSPORT	9.1	48	31	3.6	64.5	209
PRODUCTION	9.7	361	243	27.6	67.3	2250
Clothing & footwear	..	*75*	*40*	*4.6*	*53.7*	*380*
Engineering	..	*52*	*34*	*3.9*	*65.5*	*407*
Printing	..	*82*	*60*	*6.8*	*72.3*	*282*
Publishing	..	*51*	*29*	*3.3*	*56.5*	*153*
RETAIL	18.1	216	147	16.7	68.2	730
Food	..	*97*	*71*	*8.1*	*73.2*	*399*
Books	..	*47*	*31*	*3.5*	*66.3*	*138*
SERVICES	12.1	361	249	28.3	69.0	1266
Media, arts etc.	..	*159*	*116*	*13.2*	*72.8*	*512*
Computing & business services	..	*56*	*36*	*4.0*	*63.4*	*126*
WHOLESALE	7.9	36	25	2.8	69.4	196
Food	..	*21*	*16*	*1.8*	*77.2*	*170*
TOTAL	100.0	1330	880	100.0	66.2	5455

Note: Totals may not agree exactly with those in other tables because co-ops not classified to a sector have been omitted.

Source: As for Table 5.2

Table 5.7 shows that there are wide variations in the survival rates of co-operatives across sectors, and that the distribution of these is different to concentrations of co-operatives. Both clothing manufacture and wholefood wholesaling have high concentrations, but the former has a much higher failure rate. This again suggests that there are different factors at work influencing the creation of co-operatives and their survival.

What are the crucial factors which influence the industrial sectors in which co-operatives operate? In examining first of all the sphere of production, it appears that within a capitalist economy co-ops are suited to a labour intensive, small scale, craft based production process, and find it more difficult where production is capital intensive and/or large scale and/or dominated by mass production with a detailed and hierarchical division of labour on Taylorian principles. There are a number of reasons. Firstly, co-operatives face fundamental problems in raising finance[73], This will inevitably tend to push them into labour intensive rather than capital intensive areas of production. Secondly, capitalist competition will tend to displace production in the older craft-based industries where skilled workers are important. For much of the twentieth century the tendency has been to deskill craft workers, and replace craft production with large scale, mass production methods based on semi-skilled and unskilled labour. More recently, production based upon 'flexible specialisation' and computer-aided manufacturing (CAM) processes have enabled deskilling in industries where batch production predominates[74] - for instance clothing and engineering.

Resistance to these processes by craft workers takes many forms, but one option has always been for the threatened workers to establish co-operatives in an attempt to put themselves beyond the reach of capitalist control. Many craft workers have a history of collective organisation - from the medieval guilds to the emergence of craft unions during the mid 19th century - and which draws them towards co-operative production. If they do this the co-operatives will replicate existing production methods rather than employ the new ones which capitalists are trying to introduce, and so will tend to be small scale, labour intensive and craft-based. When this happened in the last century, continuing competition meant that survival could only be achieved in co-operatives on the basis of intense physical effort on old machinery. They were assisted by securing protected markets in the consumer co-operative movement, but there constantly remained the threat of more intense competition as mechanisation developed elsewhere. For many of the craft workers who established co-operatives in the nineteenth century, their position could only be maintained by the employment of outworkers and wage labour within the factories, and made little effort to introduce new production methods[75].

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73 For more detail see chapter 6.

74 The status of skilled work under 'flexible specialisation' is a controversial area, with with some arguing that it provides a renewed role for skilled workers. Whilst this may be true in certain cases it is doubtful that it can be generalised. The issue is taken up again in Part III.

75 Thornley, 1981; Jones, 1894.

The third reason relates to the very different nature of large-scale production, which makes a co-operative more difficult to operate. Organisational theory suggests that collective organisation is much more difficult the larger the unit becomes. This is true, but I would resist a solely ahistorical interpretation of very real problems. Even if large scale collective organisation is difficult to organise, it is the need to survive in the market which does not allow the opportunity to develop alternatives along these lines, and the needs of the capitalist economy do not accommodate such processes. More important, however, is the nature of large-scale production and of the development of capitalist technology and its requirements for the control of the conflict inherent in production. The technology and associated division of labour in large scale industry has been developed on the basis of a hierarchy of skills and authority, and it is this which makes egalitarian organisation of production and decision-making particularly difficult to organise. Although the organisational explanation does have some validity, it is important to recognise that the problems of organising co-operatives in large-scale production are largely for *historically specific reasons*.

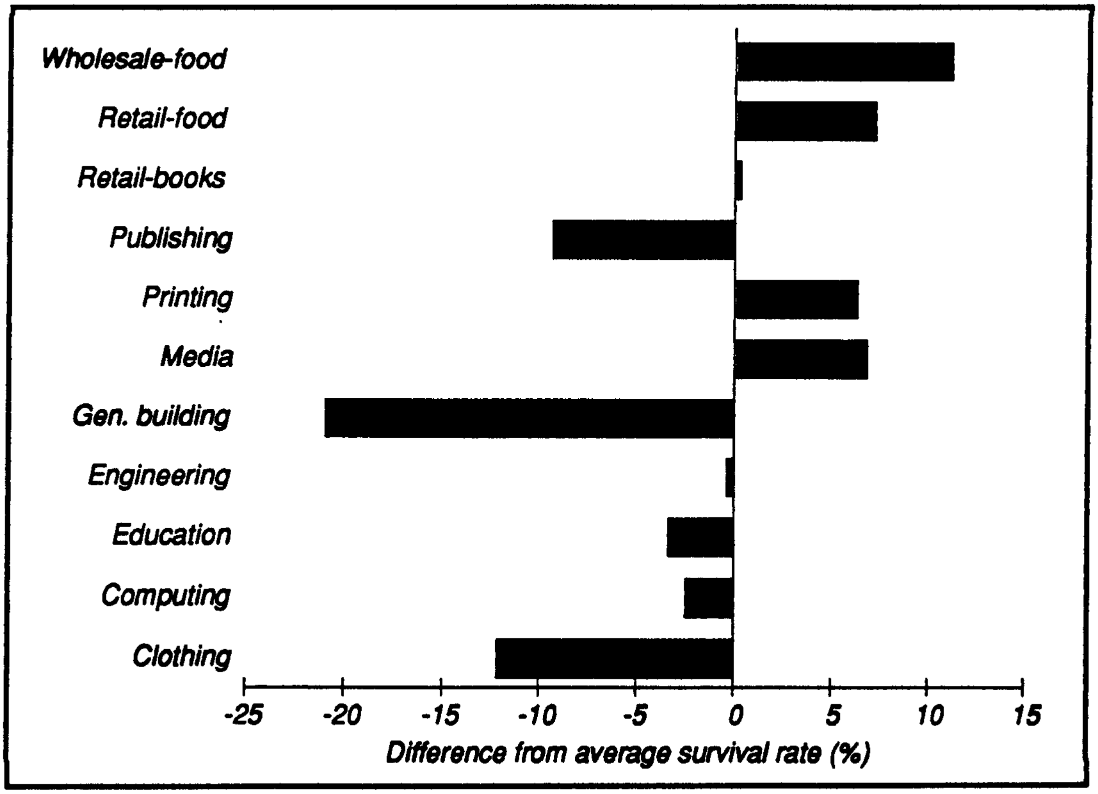
Small firms are not confined to these older craft-based production industries. The expansion of service industries has involved many small companies in labour-intensive operations; catering is one example which has shown rapid growth generally and in particular for co-operatives. Most services involve unskilled or semi-skilled work with small skill differentials, and thus are amenable for co-operative production. Therefore, although co-operatives are concentrated in small scale, labour intensive production, the particular industrial sectors where this type of production predominates is dependent upon wider processes taking place. Current restructuring involves a shift of production generally from large to small firms, but the nature of these changing relations varies from one industry to another. An understanding of why co-operatives are concentrated in certain sectors is dependent upon following through economy-level changes to the specific forms they take.

It is also necessary to look at the nature and impact of exchange relations as well as production relations. The recent co-op movement growth has been characterised by a much broader (and more radical) interpretation of co-operative objectives, and for the first time this includes an emphasis on production for need, and a desire to move away from profitability as the main determinant of the nature of products manufactured or offered for sale. This has been important as it has intervened in normal competitive capitalist market relations. Production of goods for need - whether for diet and health (wholefoods) or political need (radical printing and publishing) has led to a market segmentation which has to a certain extent shielded co-operatives in these areas from competition. Particularly in printing, there is a substantial body of customers who specifically prefer to buy from a co-operative than a capitalist firm, with less importance attached to price competition. While there is the *potential* for this to take place virtually throughout the co-op movement (through intertrading, or supplying consumer co-operative stores) it has more readily occurred with products which have an overtly political nature in their use, rather than simply in their production relations (such as clothing).

Exchange relations have a particular importance when considering the prospects for co-operatives in different sectors, because it is through the market that pressures towards degeneration are transmitted. Their role has been previously illustrated in the case of 19th century co-operatives, where degeneration was avoided through links with consumer co-operatives. More striking is experience from France and Italy. Co-operatives in these countries are heavily concentrated in certain sectors; in common with Britain, they are in active in labour intensive small scale production, as well as in declining industries. Unlike here, there are many co-operatives in building, construction and civil engineering, where preferential awarding of state contracts for public works have provided many co-operatives in these sectors with a partially assured market.

The contrast between the distribution of co-operatives across geographical regions and that across industrial sectors is striking. The regional pattern of co-operative development and growth is very similar to that of businesses as a whole. However there is a much greater relative concentration of co-operatives in certain industries, and also a wide variation in failure rates, illustrated in Figure 5.8 overleaf.

Figure 5.8 Survival rates of co-ops in different industries to end 1986, relative to average rate of 66%



The tables illustrate much greater variation in the past performance of co-operatives according to sector rather than to region. The sectoral distribution of co-operatives is much less similar to the sectoral distribution of all businesses than is the regional distribution of co-ops compared to the regional distribution of all businesses. There is also a much greater variation in survival rates across sectors than across regions. The apparent relative importance of sector for co-operatives is not especially surprising, as even for businesses as a whole there is much more variation in formation and survival rates across sectors than across regions[76]; this raises the possibility that even regional variations could be mostly due to the different sectoral characteristics of regional economies. This finding is not surprising; the factors which influence performance vary much more across industries than they do geographically. An examination of some aspects of the experiences of co-operatives in different industries provides the basis of chapters 8-10, and the role and importance of industrial sector will be addressed again in Part III.

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76 British Business 3.4.87.

WORKING CONDITIONS AND RELATIONS WITH TRADE UNIONS[77]

The concept of co-ops as worker controlled enterprises includes certain essential elements. Firstly, within the co-operative, a central aim is to increase the degree of workers' control over work and production, and to improve working conditions. Secondly, the extension of worker control within co-ops is dependent on changes in the wider political and economic environment, and in order to achieve this co-ops must build up links with other parts of the labour movement, particularly the trade unions. Despite these two important aims, there is an almost total lack of information on the extent to which they have been achieved. The

> lack of 'hard' information is very noticeable for particular trade union concerns, noticeably the extent of trade union membership and the rates of pay among co-operatives[78]

Some information is available from case studies, but the overall situation is characterised by uncertainty and partial evidence being used to develop policy. This particular situation is exacerbated by a lack of information regarding trade unions as well as co-operatives; neither the TUC nor individual unions have accurate figures on total membership or its distribution between firms and industries[79], and so it is difficult to determine the relative strength of unionisation in co-ops.

In this section I present the results of research in this area gathered from a questionnaire mailed to co-ops in 1985. There are obviously inaccuracies and faults in this data; there is almost certainly a bias in that co-ops responding were not representative of all co-ops, and it has been suggested that the larger and better established co-ops were more likely to reply - and these will be more highly unionised than co-ops in general. However, to my knowledge it stands as the only evidence of its kind currently available for the whole of Britain. The intention is to help inform the general debate and also to consolidate the relationship between trade unions and worker co-operatives. Further evidence from other sources will be presented in the chapters on individual industrial sectors.

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77 *Cornforth, 1982, gives an excellent survey of the issues involved in the relationship between worker co-operatives and trade unions.*

78 *TUC, nd.*

79 *Conversation with Ian Brinkley, TUC economist, December 1985. Data is held on membership by union rather than by firms or industries.*

Worker co-operatives and trade unions - historical background

Throughout most of the 20th century, the trade union movement in Britain has shown little interest in worker co-operatives. This has not always been the case; in the 1860s the developing trade unions gave their enthusiastic support to several mining and engineering co-operatives in the north east[80], and in the 1890s to numerous co-operatives which emerged in the east midlands. At that stage unions accepted co-operatives as working-class initiatives aimed at opposing capitalist control of the means of production, but for a variety of reasons their enthusiasm subsequently waned.

Firstly, many co-operatives collapsed with huge debts in the recession of 1874/5, and after losing money in these experiments the unions became more wary of such close involvement. In particular the Ouseburn Engineering Co-operative had debts of £10,000, a huge sum in those days. Secondly, co-operatives became more and more associated with bourgeois philanthropy and the middle class enthusiasm for profit-sharing, and the radical edge of these working class initiatives became blunted by both this involvement and the need to compete in the capitalist market. Thirdly, the development of the labour movement's strategy for achieving public ownership of the means of production concentrated on nationalisations carried out at the state level, rather than through co-operatives.

The lack of enthusiasm for co-operatives in Britain - which applied to the state as well as the trade unions - contrasted with the experience of France and Italy. Communist parties and trade unions in both countries maintained support for co-operatives, and actively promoted them. Combined with extensive state support, this was an important reason why co-operatives in those countries maintained a vitality which contrasted with their almost total disappearance in Britain.

Trade unions and the co-ops boom

The resurgence of worker co-operatives in the late 1970s took place without any significant involvement by the trade union movement. Local union officials had been involved in the wave of factory occupations and sit-ins in the early 1970s, and in the establishment of the three major co-operatives with Department of Industry (DoI) support in the mid-1970s, but

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80 Thornley, 1981, chapter 1.

this had little impact at national level, and indeed the unhappy experiences of the DoI-funded co-operatives probably served to confirm entrenched trade union suspicions rather than herald a new dawn in worker control and public ownership strategies. Problems also arose with union involvement in other ventures, such as Taunton Shirt Co-op and Minehead Shoe Co-op[81]. At Taunton, the TGWU contributed finance, management and marketing, but the eventual failure of the co-op left both workers and union with bitter memories of the experience.

As the co-operative sector continued to grow, however, the trade union movement finally began to take an interest in the early 1980s. There were several elements contributing to this, particularly the Labour Party's reassessment of its nationalisation policy, and the promotion of co-operatives by Labour local authorities. Widespread factory closures and redundancies, and rapidly increasing unemployment, stimulated consideration of virtually any means of creating employment, and co-operatives were suddenly becoming attractive as a means of both creating jobs for the unemployed, and of rescuing jobs at capitalist firms in difficulties. Also important was the continued involvement of local union officials in individual co-operatives, particularly in 'rescues'. This included the NGA and SOGAT assisting in the establishment of a printing co-operative in Newcastle (Printers Inc.); TGWU involvement in the establishment of the Taunton Shirt Co-op and Minehead Shoe Co-op; the NGA with a typesetting co-operative in Widnes (Parados Graphics); and USDAW has been active in helping ex-Fine Fare workers in the north-west set up co-operatives in the company's unwanted stores. Local authorities establishing CDAs in the early 1980s were often ideologically committed to involving trade unions, and many called for trades council representatives on management committees. In London, the GLC's London Industrial Strategy was developed with the unions playing an integral role, and as a result support from GLEB or the LCEB was made conditional upon co-operatives (or indeed any firm) allowing trade union recruitment of workers. The GLC was also instrumental in the establishment of a TGWU branch in north London specifically for co-op workers.

These grassroots initiatives required a co-ordinated response by national trade union leaderships if local initiatives were not to develop in a vacuum. The most systematic attempt to bring the co-operative and trade union movements closer together came relatively early on, when the Wales TUC commissioned a feasibility study on co-operatives,

81 *Carter, 1987.*

mainly in response to pressure from redundant workers wishing to set up co-operatives[82]. As a result of this a resource centre was established by the Wales TUC in 1983 to promote co-operative development, with a trade union majority on the management board. Finally, in 1985 both the TUC and the GMBU published guidelines on the conditions under which trade unions should become involved with the establishment of co-operatives.

The TUC guidelines showed some limited enthusiasm for co-operatives as a means of providing jobs and for extending industrial democracy. However they also illustrated the two major concerns which trade unions retain about the development of co-operatives. The first is co-ops being used to undermine other trade union strategies, particularly opposition to privatisation, and becoming involved in attempts to develop or extend the non-unionised areas of the economy. The second is 'self-exploitation' by co-op workers, working long hours for low wages, and the impact this might have on undermining union-negotiated rates of pay and conditions in other enterprises.

The trade union movement's concern that co-ops will be used to undermine union strategies is a very real one. Proponents of privatisation have unashamedly used the prospect of ex-public sector workers forming themselves into co-operatives to carry out contracted-out functions, as the following quote demonstrates:

> The Government has emerged as a champion of workers' co-operatives, especially those that would be formed round the privatised parts of the public sector. Local authorities and area and regional health authorities are examining the possible attractions of workers' ownership of hived-off services such as laundry, cleaning and maintenance. It is thought such arrangements could defuse some problems frequently attending such moves. Mr Tebbit, the Trade and Industry Secretary, often thought of as a hard-line Right-winger, has given such initiatives his blessing. The two main bodies involved ..... the Co-operative Development Agency, headed by Mr George Jones, and the Job Ownership Organisation, headed by Mr Robert Oakeshott, have been impressed by the public bodies' enthusiasm. Mr Jones said [that] trade union hostility to privatisation could be deflected by using workers co-operatives[83].

As a result the TUC has explicitly stated its opposition to this: "under no circumstances should worker co-operatives bid for work currently being done by direct labour"[84], although it does reluctantly permit workers to form co-operatives to bid for privatised work once all other strategies have failed.

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82 Logan and Gregory, 1981.

83 Financial Times 15.2.84.

84 TUC, nd, p. 7.

There is also a more general concern that an expansion of the co-operative sector will undermine the role of trade unions within the economy. If conventional management structures are removed within co-operatives, the immediate basis for trade union bargaining is changed. As Tony Eccles put it:

> how do you sustain the collective bargaining role if you are bargaining with yourselves?[85]

The structure of co-ops also challenges the representational role of trade unions. If a worker has a grievance, she/he can take it to a co-operative meeting rather than to a shop steward. Many co-op members have therefore taken the view that trade unions were irrelevant to them, given that the division between workers and capitalists had disappeared within the enterprise. This view is typical amongst those taking a 'small business' or 'participative' approach to co-ops[86], and particularly characterises paternalistic co-operatives (such as Scott Bader) which had been sold or given to the workforce by their owners. It is a view which rejects the social relations of which co-operatives in a capitalist economy are a part, whether they like it or not, and does not consider that links with the labour movement are necessary to bring about a successful co-operative sector. This approach is also found at Mondragon in Spain, where the general view is that there is no need for trade unions within co-ops[87]. Opposition to trade unions was also strong amongst the 'alternative' co-ops, which had anarchist orientations and rejected trade unions as bureaucratic elements of the corporatist state. Even in rescues, there is some evidence that support for unions weakens after a co-op is established[88]. In recent years however the predominant view within the British co-operative movement has changed, and the need to develop links with the labour movement is now recognised. Thus ICOM recommends that all co-op workers should become trade union members, both for reasons of general solidarity and in recognition that conflicts do exist between the interests of the co-operative as an entity engaged in accumulation, and those of the workers. Furthermore, the substantial involvement of local authorities since 1980 has helped change the perspective of co-operatives towards trade unions.

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85 Guardian 17.11.82.
86 e.g. Oakeshott, 1978.
87 Bradley & Gelb, 1983.
88 Ibid.; Estrin, 1985.

Union membership in co-ops

The evidence so far on trade union membership in co-ops is reasonably optimistic. One study carried out at Cardiff University in 1984[89] surveyed worker co-operatives in Wales, and found that 30% had some trade union members, although not all of these co-ops were fully unionised; overall, union members accounted for only 18% of total employment. My own evidence for co-os throughout Britain suggests that union membership is much higher, or has increased in recent years. Useable results were received for 231 co-operatives, covering 1900 full-time workers - probably 30-35% of all co-ops in existence at that time. These suggest that 55% of all co-ops have some union members, and that overall union density (percentage of all workers who are union members) is 34%. The full results are presented in Tables 5.8a-d.

The impact of the GLC's and London borough's policies in London are quite clear, as union membership is nearly twice as high as in the rest of the country. 80% of London co-operatives had at least one union member, and 50% of all workers are members; outside of London the respective figures are 45% and 28%.

The evidence that union density is less than the proportion of co-ops with some union members shows that many are not fully unionised; if only a small proportion of workers are members, then the impact is much less than if all (or nearly all) workers are members. Again, the evidence on this is encouraging; two thirds of co-operatives with some union members were more than 75% unionised, and over one fifth were 100% unionised.

The final figure in Table 5.8b excludes 'conversion' co-ops from the data, that is, co-ops which have been formed from active private sector firms. Such co-ops usually result from the actions of paternalistic capitalists, 'giving away' or (more usually) selling the company to the workforce; these enterprises are generally un-unionised both before and after conversion, as such owners believe that unions are irrelevant if the 'us and them' conflict can be avoided. While conversions are rare they tend to be large and therefore have a major impact on union membership figures; when they are excluded, 41% of co-op workers are union members.

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89 quoted in TUC, nd.

Table 5.8 Trade union membership in co-ops

5.8a: Co-ops with a union presence.

	%
Britain	55
London	80
ex-London	45

5.8b: Union density 1: % of co-op workers who are union members)

	%
Britain	34
London	50
ex-London	28
Britain*	41

(* excluding conversions)

5.8c: Union density 2: membership levels in co-ops with some union members

% unionised	% of co-ops
less than 25	8
26-50	16
50-75	10
75-99	42
100	24

5.8d: Reasons for union membership (% of unionised co-ops citing each reason)*

• protecting workers' interests within the co-op:	38
• general solidarity with the trade union movement:	87

(* more than one reason could be given)

Source: Co-op survey

Further encouragement can be gained from a comparison of these results with union densities in small firms. In fact such comparisons are very difficult to make, because of the paucity of information concerning union membership in firms of different sizes. The major sources are the two surveys carried out jointly by the DoE/PSI/ESRC in 1980 and 1984, covering workplace industrial relations[90]. Even these surveys are less reliable on very small firms, as enterprises with less than 25 workers were excluded, and in such firms union membership is "much lower". However, amongst the main results were:

- union membership density was strongly positively related to firm size; that is, density increased with firm size. Small firms had relatively low union membership.

- union density was also strongly correlated with type of ownership; it was higher in publicly owned than in privately owned firms of any size.

- between 1980 and 1984, when the two surveys were carried out, union membership declined dramatically, after showing rapid growth in the 1970s[91].

Figures which are directly comparable to those above on co-operatives are difficult to obtain from these results, mostly because of the exclusion of very small firms. However, indicative figures are available. Union density in co-ops - 34% - does not compare well with the overall figure of 58% in 1980 (for all firms). This is not really an appropriate comparative figure, bearing in mind that 96% of co-ops have less than 20 workers. The WIRS 1984 survey found that the average density in private sector enterprises employing 25-99 workers was only 20%, and that "given the positive and continuous relationship between density and organisation size, firms below our sample threshold of 25 employees could be expected to have *very much lower* union density on average than this" (emphasis added)[92]. Another claim has been made that only 10% of workers in small firms are unionised[93]. On the basis of these figures, therefore, it seems safe to say that union density in those co-ops for which data is available is *at least double* that in comparable private sector firms.

Although co-ops are more highly unionised than small private sector firms, they are clearly less so than the public sector or indeed large private sector firms[94]. Therefore co-ops which operate in areas privatised from the public sector or fragmented by the private sector still represent a weakening of the trade union movement; but nevertheless, if fragmentation or

90 Department of Employment, Policy Studies Institute, Economic and Social Research Council. Daniel & Millward, 1983; Millward & Stevens 1986.

91 Department of Employment (DE) figures show that total union membership fell by 15% from 13.3m in 1979 to 11.3m in 1983, after having risen from 11.5m in 1973. (Annual Abstract of Statistics, 1986, Table 6.23)

92 Millward & Stevens 1986, p. 61

93 Labour Party 1985, p. 13

94 Millward & Stevens report a density of 60% in firms with over 50,000 workers (1986, pp. 58-9).

privatisation processes are to take place anyway, co-ops are preferable to small firms for the trade union movement.

Reasons for trade union membership

The reasons given by co-operatives for union membership are shown in Table 5.8d. This suggests that there is a strong ideological sympathy amongst co-op workers towards the trade union movement, and less concern with the internal role of unions. The large number of relatively new co-operatives, and the strong influence of ICOM, CDAs and local authorities on them, have strengthened the links with unions. One uncertainty is how sustainable the sympathy is. Preliminary evidence[95] indicates that the initial enthusiasm may wear off after the first year; coupled with the now-weakened position of local authorities, present levels of membership and support may be vulnerable unless unions can make a greater impact on establishing a role within co-operatives.

Wages and working conditions

Related to this is the second major issue, that of 'self-exploitation'; it is a crucial and difficult one for both the co-operative and trade union movements. Many co-operative workers work long hours for low wages, particularly in the early days, in order to establish a co-operative as a commercially viable entity. Of course this does not just apply to co-operatives; most workers in small firms experience lower pay and worse conditions than those in larger firms[96]. Small firms generally operate with low capital intensity, and can only compete on the basis of intensive exploitation of cheap labour; hence the resistance to unions' attempts to organise and improve wages and conditions within small firms[97]. The situation is likely to be worse in co-ops, whose specific characteristics provide even more downward pressure on wages. For instance, the typical situation of severe initial undercapitalisation means that the business must be built up through 'sweat equity'. Shortages of some necessary skills will also be more pressing in early days, before on-the-job training begins to compensate. Thirdly, even when successfully established, the pursuit of specifically co-operative objectives is likely to conflict with commercial performance, and this may have an impact on wages and keep them lower than they might be otherwise. Thus in printing co-operatives, practicing job rotation will have a commercial cost and tend to

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95 Report by Jenny Thornley, GLEB, 1987.
96 Rainnie, 1985b; see also chapter 3
97 L.Harris 1985, p. 25

reduce wages below what they would be with conventional demarcation[98]. The tendency towards low wages in co-operatives will be offset by the workers' claim on any surplus, but in practice only a few co-ops manage to pay bonuses in addition to wages.

The desire of co-operatives to unionise is likely to conflict with their position in the economy, particularly when trade unions are intent on maintaining wage levels. However there has been very little evidence on the actual wage levels achieved within co-operatives. The Cardiff University study of worker co-operatives in Wales found that over 70% of full-time workers received less than £75 for an average working week of 43 hours.

My own survey found wages to be substantially higher than this, although this may be due in part to self-selection amongst co-ops providing information. The mean weekly wage was £116, with the median around £100. In comparison to the Cardiff study, 73% of workers received £150 a week or less. The full breakdown is given in Table 5.9 and illustrated in Figure 5.8.

Table 5.9 Wage levels in co-ops (1986)

Wage level	*% of workers*	*% cumulative*
0 - 24	1.9	1.9
25 - 49	11.2	13.1
50 - 74	13.1	26.2
75 - 99	14.1	40.3
100 - 124	17.8	58.1
125 - 149	15.3	73.4
150 - 174	11.1	84.5
over 174	15.5	100.0

Source: Co-op survey

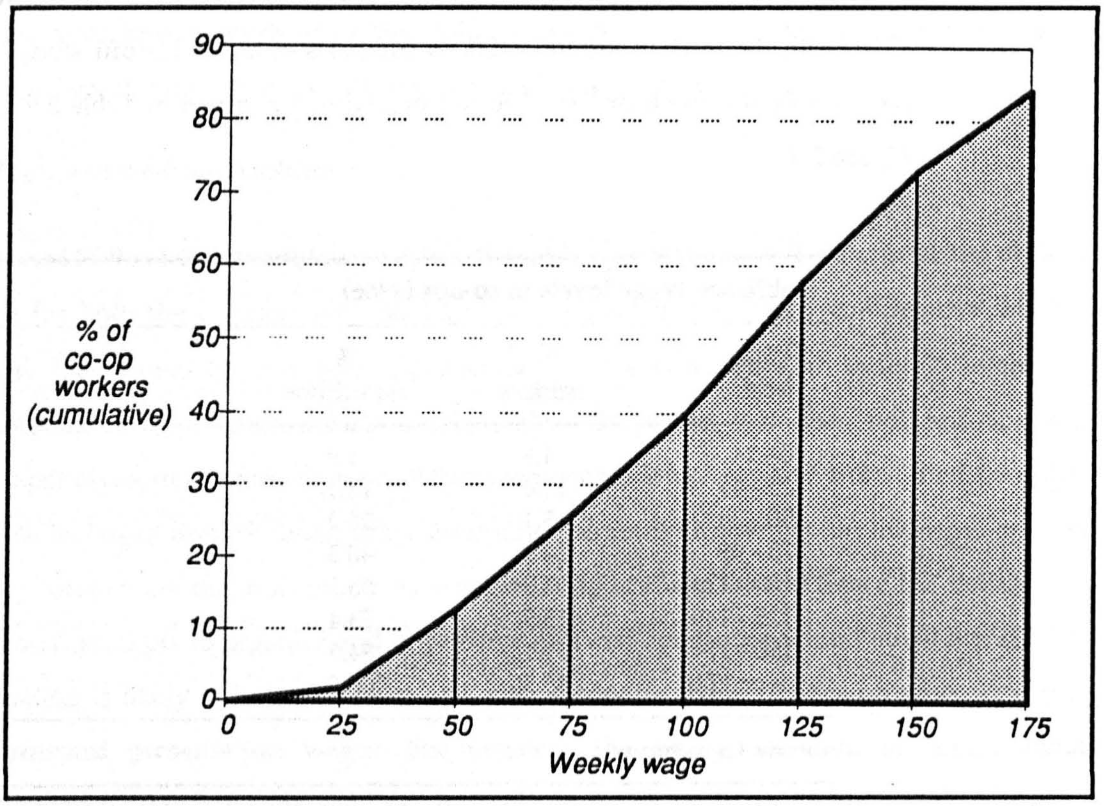
98 See chapter 6; M.Harris, 1985.

Table 5.10 Hours worked by full-time workers

Hours	*% of co-ops*	*% of workers*
30-39	34	44
40-49	49	43
50-59	11	10
60-79	5	2
> 80	1	1

Source: Co-op survey

Figure 5.8 Wage levels in co-ops, 1986 (£/week)



Wages were higher in unionised co-operatives; where 50% or more of the workforce were members of trade unions, the mean wage was £133. In all other co-operatives the mean was £110.

The average (mean) number of reported hours worked per week by full-time workers in responding co-ops is 41 (see Table 5.10). 56% of workers worked more than 40 hours per week, but only 13% worked more than 50 hours.

Wage differentials

Further conflict between trade unions and co-operatives over pay issues has occurred over the payment of wage differentials. Pay equality is central to the policies of many co-operatives, on the grounds that differentials are incompatible with a non-hierarchical structure. Much union activity is of course directed towards maintaining differentials, and as with wage rates generally co-operatives may be perceived as undermining gains won by unions elsewhere.

Even in co-operatives which most closely replicate capitalist structures pay differentials are narrower than the norm. Mondragon has a policy of maintaining a maximum differential of 3:1, and at Scott Bader it is 7:1. This policy has come under attack from some quarters, on the grounds that it prevents co-operatives from attracting highly skilled management and technical personnel, and that this adversely affects performance. The more radical view is that the role of conventional management cannot be divorced from the power structure of capitalist firms, and that this is what co-operatives are in opposition to; therefore it is preferable to either attract sympathetic co-operative managers or train people from within, and that this can be done without substantial differentials. However this position is constantly under pressure, and at Mondragon, for example, there have been recent proposals to extend differentials to 6:1.

Of the 231 co-operatives responding to the survey, 65% reported operating some form pay equality policy. This can be interpreted in various different ways: equal gross pay; equal take-home pay; equal hourly pay; equal pay for equal needs (e.g. so that workers with children receive more than those without). The remainder claimed to pay more for senior/more skilled/more experienced workers. Pay equality is a result of the generalised commitment to egalitarianism in co-ops, and is of course easier to maintain in small co-ops, before a skill-based hierarchy, and the problems of retaining specialised workers, can develop. It will be interesting to see how this commitment develops over time as co-ops grow; certainly the example of Mondragon suggests that it becomes threatened.

Wages: comparisons with capitalist firms

It is difficult to make direct comparisons between this co-operative wages data and wage levels in comparable capitalist firms. Wages are depend strongly on the industry in question, and a meaningful comparison would require a sample of capitalist firms in the same industries and of a similar size distribution to co-operatives. This has been done in later chapters on the clothing and printing sectors, and show that wages in co-operatives are lower; these results are summarised below in Table 5.11.

Table 5.11 Average weekly wage in co-ops and capitalist industry, 1984 & 1986 (£)

		All inds. & services	*All mfg. inds.*	*All non-mfg. inds.*	*Printing*	*Clothing*	*Food w'sale*	*Distrib. retail*
	[SIC ➻]	*0-9*	*2-4*	*0,1,5-9*	*475*	*453*	*617*	*641*
1984								
Capitalist	M	156.7	158.9	148.1	201.1	114.0	138.8	129.3
firms	F	93.5	96.0	90.9	112.1	80.1	88.4	85.8
Co-ops		..	..	..	112.6	57.5	112.0	58.0
1986								
Capitalist	M	174.4	183.4	167.5	234.1	132.1	161.0	147.2
firms	F	107.5	111.6	103.1	134.6	92.6	99.1	101.1
Co-ops		116.1	..	..	111.3	98.3	116.5	70.7

SIC=Standard Industrial Classification (1980)
Co-op figures for 1984 and 1986 are from different sources and are not directly comparable.

Source: New Earnings Survey, 1984 & 1986; own data.

There are real problems associated with this situation:

> At a time when national bargaining agreements are under attack and the scope of wages councils being cut back and undermined, co-operatives which undercut in this way are a further threat to the wages and conditions of union members and particularly the low paid[99].

Co-ops struggling to establish themselves may be forced to attract business by undercutting prices charged by competitors, and hence undermining the wages and conditions of workers in those competing firms. The transfer of work from conventional, unionised businesses to undercutting enterprises, whether co-ops or not, is not a positive contribution by co-ops to the labour movement.

Although many co-operatives do pay low wages and few can afford to pay union rates, there is some optimism. Evidence presented in following chapters shows that wages have

99 *TUC, nd, p. 7.*

been increasing in co-ops, and, in certain circumstances at least, are comparable with or better than those in private sector firms. The necessary conditions for this to happen will be explored more fully in the conclusion.

However there does need to be a reassessment within the TUC of attitudes towards the other benefits of working in co-operatives. The current attitude is quite clear:

> The TUC does not accept the view that democratic rights in the workplace can be seen as a trade-off against wages[100].

It does represent a narrow economistic approach towards workers' situation, reflecting the preoccupation amongst trade unions with issues of pay and working conditions. The fear that co-operatives paying low wages will undermine wage rates elsewhere can be overstated. There will only be a direct threat to other workers if co-operatives used low wages as a means to compete by undercutting prices charged by other firms. It is more usual for co-operatives to pay low wages *despite* charging comparable prices to their competitors. The low wages may be due to severe undercapitalisation, or the cost advantages enjoyed by co-operatives may be used to provide other benefits for workers. These can be direct costs, such as financing creche facilities to give single parents to work at the co-operative, or indirect costs such as the time taken up in meetings or the productivity losses associated with job rotation.

The issue is not straightforward, and as Mellor & Stirling comment:

> A trade union official is unlikely to be convinced that £50 a week plus job satisfaction is better than £80 a week plus [incentive] bonus[101].

However £50 plus job satisfaction and other gains in a co-operative is undoubtedly better than £50 plus alienation in a small firm.

If unions could accept that co-operatives have legitimate objectives other than maximising wages, then lower wages in co-operatives need no undermine wage levels elsewhere. Lower wages in co-operatives cannot be taken in isolation but go together with other gains for workers. Given that the pursuit of co-operatives' social objectives costs money, unions could easily argue that workers in enterprises which *do not* meet social objectives should be able to extract greater pay than workers in those that do. It would no doubt be a difficult

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100 ibid.
101 Mellor & Stirling, 1984, p. 10.

negotiating tactic, but would at the same time broaden the perspective of trade unions. After all, the gaining of skills which are usually denied to the mass of workers under capitalism must be a step forward for the labour movement. Similarly with the appreciation that preoccupation with economistic or money-orientated objectives is specific to capitalism and not the basis of a human-orientated society.[102]

Opportunities for trade unions

At present there appears to be a relatively positive approach towards trade unions amongst co-operatives, and this does provide the opportunity for a stronger relationship to be developed. McMonnies found that in co-operators on Merseyside had a more positive attitude towards trade unions than most trade unionists[103]. Despite some widely held (and anti-union) views, there is a role for trade unions within co-ops. Unions are necessary to represent the interests of individual workers when they conflict with demands imposed upon a co-op by the requirements of the market or plan. They are also a key source of information and training on key issues such as health and safety. Even at Mondragon, unofficial union membership is growing. In large co-operatives where there is a clear division between shop floor and management, unions can assist in representing workers' interests when management has decision-making power. Although there are those who hope that unions would wither away in an economy with widespread co-op production, this largely depends upon the political and economic environment within which co-ops develop. In Yugoslavia for instance, where self-management was introduced under the auspices of the Communist Party, trade unions have not been abolished but form a significant part of the socio-economic system., although their role has changed. Unions' role does have to be clearly worked out. In Britain there is a danger that trade union officers could take on management roles in rescues co-ops, and compromise their position as workers' representatives; this appears to have been the case at KME[104]. Essentially the same arguments apply to this situation as with worker directors on the boards of capitalist companies, as recommended by the Bullock Report: that acting as both management and workers' representatives is an ambiguous position, with management interpreting and responding to market forces and workers representatives protecting workers against those forces. This applies in a co-op as well as in a capitalist firm.

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102 Jefferis, 1988.
103 McMonnies, 1985.
104 Eccles, 1981; Clarke, 1983.

Closer co-operation between the two movements is certainly necessary if co-operatives are to become a major force for workers in Britain. It is highly unlikely that a significant co-operative sector could be developed without union support in an industrial country with a developed labour movement, as is illustrated by the role of the union movement in the much larger co-op sectors of France and Italy.

6. Co-operatives and Finance Capital

INTRODUCTION

In setting out their strategy for assisting the development of worker co-operatives in London, the Greater London Enterprise Board (GLEB) considered that "the combination of problems faced by worker co-ops may be linked to lack of start-up capital"[1]. This view echoes the widely held opinion amongst both theorists and practitioners of co-op development, that co-ops tend to suffer from a shortage of finance[2]. It is considered that this problem constrains their ability to survive commercially and to achieve a restructuring of production under worker control, and ultimately the development of a large and successful co-op sector. Although there has been much debate on the financial needs of co-ops, there has been little detailed analysis of existing provision. In this chapter I examine the nature of the financing problem and of attempts to resolve it in Britain and Europe, and then look at the sources of finance used by British co-ops, including more detailed results on the three selected sectors. The analysis builds upon that of Part I, and considers co-ops' relationship with finance capital and the impact of intervention on behalf of co-ops in the financial markets.

CO-OPS' FINANCING PROBLEM

I have noted in the previous chapter that co-ops tend to be concentrated in labour-intensive rather than capital-intensive sectors of the economy, and that one explanation for this is that they suffer from problems in raising finance. Certainly there have been any number of horror stories from individual co-ops concerning their efforts to raise finance from the banking community and other sources, although this applies equally to small firms and does not *necessarily* relate to any problem specific to co-ops[3]. Surveys have found a lack of finance to be the major problem inhibiting co-op development[4], but the same has been reported for small businesses[5]. The starting point in this analysis will a theoretical one;

1 *GLEB, nd(d), p. 12.*

2 *See almost any text on co-op development in Britain; e.g. Stott, 1985; Thornley, 1981; Cornforth et al, 1988.*

3 *Mellor, Hannah & Stirling, 1987.*

4 *CAG, 1984; NNLCDA, 1986. It should also be pointed out that in the opinion of CDA workers, shortage of finance is sometimes used by co-ops as an excuse for other failures (Stott 1985).*

5 *SBRT, 1987.*

before I examine the actual position of co-ops I consider the strong *a priori* evidence that co-ops' capital structure is intrinsically weak because of their class background.

The financing issue has concerned theorists of all persuasions; it provided the centrepiece of Vanek's neoclassical analysis, is integral to Oakeshott's 'social democratic' perspective, and on the left has been identified by Tomlinson as a major constraint on their success[6]. As a result there have been a plethora of both practical and theoretical solutions, the nature of which reflect the wide range of ideological positions held. In considering these it will become apparent that not only is the *amount* of finance crucial for co-ops, but also the *form* which financing takes, in its impact on the nature of co-op development.

I have presented Vanek's analysis of the financing issue in Part I, when considering the general problems of neoclassical analysis of co-ops. It need not be repeated here, save for the contrast between Vanek's main point - that co-ops' problems stem from incorrect decisions taken internally within the co-op over the form of financing to adopt - and that of Stephen's critique[7], which suggests that these problems are the result of a general shortage (for whatever reason) of funds to finance expansion.

Like Vanek, Stephen writes from a neoclassical perspective, but concludes that the finance problem for co-ops stems from their relationship to the rest of the economy. But neoclassical theory offers no explanation as to *why* this should be the case; essentially it just offers a restatement of the problem: co-ops suffer from a lack of finance. For an explanation we must consider the specifically capitalist relations of production which co-ops face in western Europe, and the role which co-ops play as non-capitalist forms of enterprise within this structure. Thus the shortage of capital faced by co-ops must be explained with reference to their origins from outside of the capitalist class[8].

Co-ops within capitalism do have an intrinsically weak capital structure. In a capitalist economy, ownership of capital brings with it control of the production process and appropriation of the product of that process. Although this control is continually contested, its retention by capitalists as a class makes the economy capitalist. Worker co-ops represent an attempt to wrest control of production and the product from capital by labour; however,

6 Vanek, 1971; Oakeshott, 1978; Tomlinson, 1982; and see Part One.

7 Stephen, 1984.

8 In addition their position is exacerbated by divisions within capital (between finance and industrial capital), which leads to finance problems for capitalist firms as well as co-ops they do this within a capitalist economy and so require access to a portion of capital in order to undertake production. This leads co-ops into a peculiar relationship with capital; if following a socialist path, this implies opposition to the very existence of capital and capitalists as a class, but in order to survive they need to appropriate a part of that capital and become part of the circuit of capital. Given that labour as a class does not have capital of its own, and that capitalists will recognise the opposition of co-ops, this appropriation will lead to conflict with two consequences. Firstly, co-ops will have problems securing sufficient finance to undertake production on a competitive basis with capitalist firms without intensive exploitation of labour, and secondly, finance will be made available on terms which tend to undermine the socialist essence of co-ops and encourage degeneration.

Moving from this very abstract level we can examine the form which this conflict takes in practice. In co-ops, formal control is on the basis of contribution through work rather than capital, and one fundamental co-op principle is that finance involved in co-ops will only be entitled to a limited return. Any surplus generated within a co-op belongs to the workforce and not to external capitalists. Consequently, co-ops perceive that finance capital is hired as an input to production in the same way as other physical inputs, and the owner of that input receives a price for its services. This position is embodied in the slogan 'labour hires capital, not capital hires labour' which the co-op movement often uses. The owners of capital will not be able to directly extract surplus value from workers in the form of profits as happens in capitalist enterprises.

Therefore external equity capital is not available to co-ops. It would entail control (at least partially) passing from the hands of workers to capitalists, who would then benefit from exploitation of the workforce; clearly capitalists would not make equity available unless they secure these two conditions. Indeed this was the fate of many 19th century British co-ops which degenerated into joint stock companies as they issued shares to external capitalists in order to raise finance for expansion.

Availability of Finance, and Commercial Performance

The relationship between co-ops and finance capital is one aspect of co-ops' overall relationship with capital. The underlying contradiction in this relationship - between the social relations within co-ops and those in the economy - results in co-ops facing difficulties obtaining sufficient finance through the banking system to compete with capitalist firms. This will be manifested in various concrete forms:

- a shortage of machinery and production equipment and of finance for stocks (fixed capital), and of flows of materials and energy (circulating capital);
- in order to compete, a tendency towards more intensive exploitation of labour, with lower wages, longer hours and worse working conditions;
- worse commercial performance than better-financed capitalist firms;
- reliance on non-capitalist sources of finance - public sector, private (sympathetic) sources, and members especially in early years;
- an increasing proportion of commercial finance as co-ops become more profitable;
- differences between sectors related to nature of accumulation within those sectors - less profitable sectors will retain a relatively higher reliance on non-capitalist finance.

Several of these relate primarily to commercial performance and will be dealt with in the next chapter. The two issues - availability of finance and commercial performance are of course closely related. Under-financing will tend to be self-perpetuating: unprofitable co-ops will be unable to accumulate, and will become progressively less competitive, less profitable, and thus face an intensification of the need to exploit labour if they are to survive. Therefore, from a given 'surplus' (i.e. surplus of revenue over material and overhead costs of production), there will be pressure to keep wages low and devote the remainder to accumulation - contributing to fixed or circulating capital. This will be dealt within more depth in the next chapter. Intervention in this process is required if co-ops are not to be permanently under-financed; hence the motivation for public sector funding for co-ops.

Under-financing is not a problem exclusively facing co-ops; the difficulties faced by some small firms in this area have been covered earlier. Storey *et al*[9] have investigated the impact on accumulation in relation to the survival of small firms in the north-east. They found that, as would be expected, those which performed best tended to have higher proportions of retained profits, and those which collapsed had lower gearing (ratio of internal funds to total capital employed). Thus the less profitable firms (which eventually collapsed) showed

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9 Storey *et al*, 1987

an increasing *proportion* of total finance provided by loans, either from members or externally, as reserves are run down to meet losses.

Financing problems for small firms

Unavailability of share capital is a problem specific to co-ops, and is in addition to the difficulties which British capitalist firms generally face in raising finance. The issue is a sensitive one, as it concerns the relationship between finance capital (the City) and industrial capital, and the extent to which their individual interests have exacerbated Britain's economic problems[10]. The main characteristics of British company financing in general are that:

- bank lending to industry has generally been in the form of overdrafts, rather than longer term loans. Overdrafts can legally be recalled at any time and thus represent liquid assets for banks. This has enabled the City to maintain flexibility towards and independence from industrial capital. Banks do lend medium to long term in some circumstances, and in practice overdraft facilities are routinely renewed, but the broad aim of finance capital remains the maintenance of independence and flexibility - whether from industrial capital, the state, or foreign loans. The low apparent risk involved in overdraft funding - because of its liquidity - has meant that banks do not have to intervene to protect their loans.

- Avoiding direct intervention in the running of industry, banks have protected themselves by securing their position in the event of company failure, by the collateral required for loans. This contrasts with the approach of many American and European banks, who aim to secure their loans by agreeing conditions on the firms operations. The UK approach "pins the banks' concern on what happens when the firm collapses rather than how it operates when alive" and can be referred to as "negative management rules"[11].

- the most important form of finance for new investment in industry has been internally generated funds (retained profits)[12].

- despite the above there is no evidence that firms have suffered a shortage of bank finance[13]; it is more likely that industry has simply generated too few worthwhile projects for financing. Firms have generally been able to secure as much finance as they need at the

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10 see e.g. Fine & Harris 1985, chapters 1 & 4; Coakley and Harris 1983;
11 Fine & Harris 1985, p. 133
12 Guardian 15.10.87; Mayer, 1987.
13 Fine & Harris, 1985, p. 135; Wilson Committee, 1980; CBI, 1987.

going interest rate. Rather, the passive nature of banks' funding and the availability of 'flexible' overdraft finance has meant that industrial firms could secure even long-term finance without the need to undertake long-term planning; and yet the availability of funds has obviated the need for state intervention in such planning. It is this lack of intervention - by either banks or the state - which has enabled British industry to continue largely without a framework of planned industrial development, and has contributed significantly to industry's weakness[14].

Although numerous surveys have found no evidence that banks have generally restricted the availability of finance for industrial companies, for small firms the difficulty in obtaining finance is frequently cited as a barrier to growth[15]. A 1987 survey of venture capital users found that 41% saw availability of capital as a major obstacle to growth[16], and the same result is found in regular surveys of small businesses[17]. The Wilson Committee found that small companies did have difficulty in obtaining finance, and as a result proposed the establishment of the small firms' Loan Guarantee Scheme. Under this, the risk to the banks of investing in small companies was partially taken over by the state, with the government guaranteeing 70% (80% until 1984) of a medium term loan at a premium of 2.5% over commercial interest rates. The scheme was intended to be self-financing - and thus was not intended to involve any subsidy to small firms - but has been plagued by a high failure rate of firms. 42% of loans have gone into default, compared to an anticipated 30%, and the scheme ran up a deficit of £109m on total lending of nearly £600m by 1987[18]. This performance suggests that the financial requirements of small companies were not for viable investments in industrial capital[19]. DTI investigations found that small firms suffered acutely from poor financial management and administration[20]. If so, then the banks can hardly be blamed for failing to advance credit to small firms. The CBI also "did not discover any serious weakness in the City's support for small firms, pointing out that more than £1 billion alone had been raised on the Unlisted Securities Market for small undertakings"[21]. If these points are correct, they suggest that if small firms have problems obtaining finance,

14 *Fine & Harris, 1985, p. 142.*

15 *Burns, 1987, p. 1.*

16 *British Venture Capital Association, 1987.*

17 *SBRT, 1987.*

18 *Guardian 10.8.88, quoting a National Audit Office Report*

19 *Harris, 1985. Similarly, the VAT-based analysis of survival rates of small firms (reported in chapter 5) also reveals a high failure rate - 25% in the first two years.*

20 *Financial Times 5.4.84.*

21 *Guardian 14.10.87.*

it is because they are not very profitable and suffer from poor management. In fact there is some evidence that the availability of equity funds now exceeds the business opportunities to invest in, and many recent USM flotations have been oversubscribed. Other evidence suggests that there are adequate loans funds for small businesses, resulting in competition amongst lenders for 'quality' investments[22]. This is reinforced by Burns, who concludes that

> there is adequate finance for new businesses with real growth potential .... the problem would now seem to be that there are insufficient businesses with growth potential coming forward with well-prepared proposals. .... The availability of external finance would appear to be no longer a major barrier to small business growth in the United Kingdom.[23]

However it is also true that the nature of the banking system tends to discourage loans to new companies. 'Quality' investment usually means businesses that have gone beyond the start-up phase and reached a size to demonstrate growth potential; it is much more difficult for new businesses to convince banks that they represent a viable investment. British banks are centralised and monopolistic; limited discretion is given to local branch managers, although their personal knowledge of the people in charge of firms is heavily relied upon; and there is an overriding concern with obtaining adequate security for loans. All of these factors make it very difficult for new firms without a track record to obtain funds.

Co-operatives and banks

The combination of co-ops' inability to raise external share capital and the characteristics of the British banking system suggest that co-ops will face severe problems in raising loan finance, even more severe than those faced by small firms in general. In the absence of external shareholding, co-ops will demonstrate a relatively greater reliance on loan finance (ignoring for the moment the possibility of raising share capital from workers). For a given total financial requirement, more of it will have to be financed from loans in a co-op than in a capitalist firm. The consequent high gearing ratio has several implications.

Firstly, in the context of British banks' negative management rules, they are unwilling to lend when gearing is higher than some standard rule of thumb. Highly geared enterprises are thought to entail higher risks, because such a structure requires a greater proportion of earnings to be devoted to interest and loan repayments than if a greater part of finance comes from share capital. This adds to the burden of fixed overhead costs.

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22 Doran & Hoyle, 1986.

23 Burns, 1987, p. 10.

Secondly, British banks are concerned about the amount of security they have for their loans. Given the practice of securing loans against floating charges on firms' assets[24], a highly geared firm effectively offers the bank less security than one with lower gearing, because loans form a higher proportion of total assets. This increases the risk perceived by banks. Whereas a small scale capitalist may be able to provide additional security e.g. a house), the class background of co-op workers suggests that they are much less likely to have access to personal assets of this kind. The particular structure of co-ops requires a different approach by banks; they sometimes interpret the lack of personal financial investment in the business by the members as a sign of lack of commitment, whereas in practice the commitment of workers in co-ops is likely to be greater, if not for ideological reasons then at least because their jobs and livelihoods are at stake as much as for any capitalist.[25]

Thirdly, bank managers place great emphasis on the personal characteristics of those involved in small businesses, and co-op workers are likely to face difficulties in generating confidence amongst bankers. In addition banks may be cautious of dealing with a group of people rather than one or two individuals; they are also likely to be suspicious of co-ops as an unknown and unusual form of business, taking more convincing that a particular venture is viable than if presented by a capitalist. Finance problems faced by co-ops are likely to be more severe at start-up and in their early years; once established, co-ops can at least overcome one potential hurdle - the lack of a track record.

Although the more established co-ops make greater use of commercial finance, they still face problems with banks. One large, well established and profitable wholefood wholesaling co-op, for instance, can only obtain an overdraft to cover the equivalent of 2 days turnover, leading to major cash flow problems.

Despite widespread concern with the difficulties faced by co-ops in raising finance, there is little quantitative evidence regarding the sources used by them in practice. A survey of the banking facilities used by worker co-ops in London has been carried out by Chloe Munro of GLEB, and this provides useful information on co-ops' relations with commercial banks[26]. Another survey, carried out by the National Network of Local CDAs, investigated the

24 A floating charge gives the bank extensive powers over the all the assets of a bankrupt borrower, and to place a company in receivership if it appears to have defaulted on a loan.

25 ICOF, 1987.

26 Munro, 1987.

position of specialised co-op loan funds[27]. In addition my own research has investigated sources of finance used by co-ops in the printing, clothing and wholefood sectors.

Munro's survey primarily investigated the banking facilities available to London co-ops. It found that relationships with banks were varied, and depended as much on the attitude of individual managers as on corporate policy. If any of the clearing banks were to be expected to have a particularly favourable position towards co-ops, the Coop Bank would be the most likely candidate. It is an integral part of the consumer co-op movement, wholly owned by the Co-operative Wholesale Society, and banker to the movement as well as to many Labour local authorities. It has attempted to establish good relations with the worker co-op movement; partly through links with local CDAs, but also through its scheme to offer £ for £ loans, matching funds contributed by members - although many co-ops do not regard this as any more favourable than normal commercial terms. CDA workers are reported to have found the Co-op Bank well informed[28] - e.g. through their involvement on the management committees of local loan funds - but this position does not translate into a good relationship with co-ops themselves. Munro reports that many co-ops are initially attracted to the Co-op Bank, but soon become disillusioned; in fact the Co-op lost more accounts than any other bank. She continues:

> The Co-op Bank of course attracts a great many worker co-operatives because it is felt to be the least unattractive bank on ideological grounds, and the belief may also prevail that it is likely to be more sympathetic than other banks .... but leavers [commented] in generally strong terms on the quality of service: "Hopeless", "Pathetic", "Unhelpful", "Unbearably inefficient", and so on. It may be argued that the strong criticisms of the Co-op Bank are partly a reaction to unreasonably high expectations, but it is also striking that co-ops currently banking with the Co-op are generally less satisfied with their relationship with their bank than any of the others.[29]

The Co-op Bank in fact claims to operate at least 50% of worker co-op accounts[30]; this seems unlikely to be true. Munro found that it gained an equal number of new co-op accounts (about 28%) as NatWest, but lost far more to finish in second place with 22%. Although the Coop Bank undoubtedly suffers because of its very limited branch network, this drawback would perhaps be acceptable if it offered preferential treatment to worker co-ops; the fact that it does not reflects both the rather cool relationship between the traditional consumer

27 *NNLCDA, 1986.*
28 *ibid.*
29 *Munro, 1987, chapter 3.*
30 *Ball, 1986, p. 81.*

co-op movement and the new worker co-ops, and the difficult relationships between commercial banks generally and co-ops.

Both surveys reported that the most common form of bank lending was through an overdraft, in common with British industry generally. In London in 1986 58% of co-ops had overdrafts, ranging from £200 to £60,000, with an average (median) of £2,000. The main constraint on overdraft facilities appears to be available security; although the majority of small (less than £1,000) overdrafts were unsecured, larger ones required securities both in the form of a charge over assets *and* personal guarantees or tangible security. Munro found that 25% of London co-ops had applied for term loans from banks, although less than half had been successful. As expected, she found that term loans are less important than overdrafts in external commercial financing, as did the NNLCDA.

The problems faced by new co-ops in particular in raising commercial finance is illustrated by this being the least important source of finance (apart from accumulated reserves) for new clothing, printing and wholefood co-ops, contributing under 15% of total requirements (see Tables 6.3a-6.3d). It is relatively most important in printing co-ops, which have frequently been conversions from some other business form, and thus often start with some form of track record upon which to approach banks; they are also aided by the relative profitability of firms in the printing industry. The importance of a track record is illustrated by the increasing importance of commercial funds as co-ops get older; by year 6 it is the second most important source of finance, after accumulated reserves, providing 25% of the total.

Although there are difficulties faced by co-ops in raising finance from banks, it appears unlikely that this is based on discrimination towards them by banks. Whilst there is certainly ignorance towards co-ops in banking circles, there is little evidence that banks apply different criteria to co-ops and capitalist firms when assessing applications for finance. The standard criteria of projected viability and business prospects, perceived risk, gearing and available security, and capability of management would be applied in the same way in both cases, but as a result of their origins, available resources and orientation, co-ops are much less likely to meet banks' requirements than are capitalist firms. This problem would of course be exacerbated by any tendency for co-ops to be established in declining industries, and is illustrated by clothing co-ops having the smallest initial proportion of commercial finance of the three sectors studied.

ATTEMPTS TO DEAL WITH CO-OPERATIVES' FINANCING PROBLEM

It has been established that co-ops have an intrinsically weak financing structure. Different measures have been adopted to deal with this, varying between countries and over time. However, the measures can be broadly divided into three groups:

- weakening co-op principles by permitting external shareholdings.
- raising capital from members, either in the form of shares or loans, or building up reserves;
- establishing sources of finance which are wholly or partially independent of finance capital, including private/sympathetic sources and public loan funds.

Shares in co-operatives (1) CPF co-partnerships

The IPS Acts which first gave distinct legal status to co-ops in the mid-19th century did permit the issuing of shares by co-ops. These are issued to members (who need not be workers), are refundable on demand, carry a fixed and limited rate of interest, and are presently limited to £5,000 per member. At that time there were few opportunities for co-ops to raise finance on favourable terms, and as a result most co-ops encouraged members to contribute the maximum in loans and shares. CPF co-ops also welcomed members from outside, such as local retail (consumer) co-op societies and trade unions. For instance, Equity Shoes, formed in 1886, had 304 members within two years, including 145 retail co-ops and 3 trade unions; the rest were workers and individuals[31]. In most co-ops non-worker members soon formed a majority (and still do), especially as many retired workers retain their membership. Obviously such enterprises are not workers co-ops in today's understanding of the word, as they are not controlled by their workers, and they are sometimes referred to as co-partnerships[32]. Workers' control in the enterprise sense is clearly vulnerable to the actions of non-worker members, but in the class sense workers control remains as long as the non-worker members do not represent the interests of capital. The position of these non-worker members may act as a constraint on the actions and decisions of workers in the co-op, but in practice this may be less of a constraint than those imposed by the need to compete in the market, especially if the *quid pro quo* for, say, allowing membership by retail societies is the provision of an assured market which may

31 Plumb, (1937), quoted in Thornley, 1981.

32 See Appendix 9 for more details on the CPF co-partnerships.

lessen the constraints which would otherwise be faced by co-op workers. Furthermore, shareholders cannot extract surplus value from the workforce, as return on capital is limited under the IPS Acts.

A major problem with this structure is that when the asset value and nominal value of a co-ops' shares move apart, there is an incentive for members to wind up such a co-op in order to realise the value of the capital assets. This is more likely if there are many non-worker members who do not thereby stand to lose their jobs; it proved to be the downfall of many CPF co-ops which closed in the period 1925-1975 on being wound up by members.

Shares in co-operatives (2) Equity participation co-ops

A more recent attempt to bring in external share capital is the National CDA's Equity Participation Co-operative (EPC), a hybrid structure which attempts to make co-ops attractive to private sector finance. It involves a complicated two-tier structure, consisting of a trading company, which is a normal share company, and a workers co-op. Some of the shares in the trading company are owned by the co-op, which is itself controlled by the workers in the trading company. Thus the workers have some collective control over the trading company, and the control is enhanced by giving the co-op shares ten times the voting power of non-co-op shares.

The idea behind EPCs is that the structure will appeal to potential external shareholders, who could invest in the share company with a view to accumulating capital. Clearly they are not co-ops in the accepted sense, in that there is only modified worker control, and furthermore the potential for accumulation of capital is not limited. EPCs are justified on the basis that they provide a means of overcoming the shortage of finance which co-ops face, and that they will enable gradual conversion to a full co-op structure over time[33]. There is potential for great flexibility in the distribution of voting rights, dividends and the appointment of directors, but they do not avoid the tension between control by workers and external shareholders - the more the powers of external shares are restricted, the less attractive an investment they will be to finance capital. It had originally been intended that the EPC structure would enable the raising of finance through the Business Expansion Scheme (BES); however, if the shares held by the co-op (i.e. the EPC) carry sufficient weight

33 *CDA, nd.*

in voting rights to ensure effective worker control, the company is rendered ineligible for the BES.

How they will work out in practice remains to be seen; by the end of 1986 only four EPCs had been formed, and none of these tapped conventional finance capital - two involved local authorities, one involved trade unions, and another raised 'community' money (from sympathisers). Indeed it may turn out that EPCs are most effective at providing a means of securing such broadly sympathetic finance, and that eventual conversion to a co-op will result. However the CDA is also keen on promoting them as employee share schemes, and in this guise they have more in common with conventional employee participation schemes or ESOPs[34]. Munro concludes that

> it is now generally accepted that the EPC does not provide a workable solution to the problem of access to capital. There is therefore little justification for the entailed departure from established co-op principles.[35]

Whilst I would agree that there is little likelihood of the EPC structure attracting commercial equity finance into co-ops, their potential for attracting municipal or trade union involvement cannot be dismissed in the same way, because these latter sources do not necessarily represent the same class interests as finance capital. Their involvement will tend to be based upon linking co-ops to wider policies and objectives, rather than the accumulation of capital, which would be the objective of conventional finance. Clearly EPCs weaken worker control in its orthodox sense, but this rests upon an individualistic conception of what worker control is; within a capitalist economy there will always be a conflict between control exerted by workers as individuals within an enterprise, and control exerted by workers as a class. If EPC's can strengthen the links between co-ops and the labour movement then they can potentially strengthen worker control on a class level. The form in which conventional co-ops operate is not defined by their legal structure as worker controlled enterprises - many replicate small business practices - and similarly EPC's could in practice operate in line with radical co-op objectives.

Conclusions - external equity

The experience of raising finance for co-ops through external equity within the British legal framework is not encouraging as a means of strengthening the co-op sector; where this

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34 ibid.; LCT, 1986.
35 Munro, 1987, p. 42.

occurs in Europe it is associated with much stronger legal restrictions on co-ops being wound up for the personal profit of members[36]. Where external equity finance has been raised by British co-ops - and this took place extensively in the 19th century - there has been a very strong tendency for degeneration through control by external capital. Indeed this form of degeneration was one of the main concerns of the Webbs in their work on co-ops[37]. Continuing proposals - such as the recommendation that co-ops need new sources of capital including the possibility of outside equity "from such sources as the local community, trade unions, major suppliers, and so on"[38] - are made without taking into account historical experience and the need for intervention at the state level to provide - as a minimum - a very different legal framework to prevent degeneration. Although the structure of ICOM co-ops has been developed so as to inhibit this form of degeneration, there is still no legal provision to prevent or discourage it, in contrast to European experience.

There is no reason to believe that co-ops raising external equity from commercial sources (e.g. venture capital funds) would avoid the degeneration which has resulted from such initiatives in the past. Co-ops' problems are likely to intensify as venture capital becomes increasingly important in the financing of small businesses, not because co-ops are discriminated against, but because they do not meet capitalist investment criteria for an acceptable rate of return on such investment. Greater London Enterprises (the restructured successor to GLEB) have been attempting to generate venture capital financing for co-ops, but admit that it would involve dilution or removal of key aspects of co-op structure. GLE have stated[39] explicitly that for co-ops to secure venture capital financing, they would need to:

• dilute worker control by allowing capital a direct involvement in the running of the enterprise, for instance through the appointment of management.

• remove limitations on permissible return on capital. Clearly, the need for venture capitalists to maximise return on capital conflicts with co-ops' desire to retain gains for workers.

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36 Ball, 1986.

37 see chapter 2

38 PA Management Consultants & Co-op Bank, 1985, p. 146.

39 LCEB 'Finance for Co-ops' seminar, London, 23.7.88.

• allow capital a 'profitable exit strategy'. Venture capitalists typically have a short time horizon, and would seek to withdraw finance within five years, and take advantage of capital gain. This cannot be effectively achieved in co-ops without permitting share capital.

Various compromise suggestions - such as EPCs and non-voting shares - have been made which fall between the requirements of capital at one extreme and of co-ops at the other. These all involve restrictions on the ability of capital to secure maximum profit, and as such appear unlikely to appeal to investors who in any case complain of a lack of profitable investment projects. The ceding of partial control to outsiders would have implications for the types of strategies co-ops could pursue, especially if these conflicted with profitability, and attempts to raise capital in this way blur further any distinction between co-ops and small companies.

Raising finance from members

The IPS Acts envisaged that co-ops would raise finance from members, who could either purchase shares or make loans to the co-op for whom they worked, and this facility was used extensively by the CPF co-partnerships. However the idea of individual shareholding was rejected by ICOM, who have been heavily involved with new British co-ops. ICOM drew up model co-op constitutions on the basis of Common Ownership of the means of production, whereby all of a co-op's assets would be held collectively. Members of ICOM co-ops contribute the legal minimum - a nominal £1 - of share capital[40], although larger amounts are permitted by the legislation. The rationale behind this is that workers should not be required to 'buy' their jobs; that is, if it is a condition of membership that more than a nominal number of shares must be purchased, people with limited resources would effectively be excluded. This would tend to exclude the poor and unemployed, and in these circumstances entry to the co-op would effectively require a capital as well as a labour contribution; this is certainly incompatible with any notion of co-ops as socialist enterprises.

Any members' contribution in ICOM co-ops must be on the basis of members' loans. Typically these are interest free, unsecured with no fixed repayment terms, and relatively small. Occasional large loans are made on more commercial terms. Limitations on the resources available to most co-op workers restrict the importance of members loans as a source of finance, although even these limited amounts may be important in early days.

40 or a guarantee of £1 for co-ops registered under the Companies Acts.

ICOM encourages members to contribute equally to loans, as it is felt that an unequal sharing of the financial burden amongst members might put the co-op under strain[41]. For the same reason ICOM rules do not permit outside members, in case they have a financial interest in the enterprise which would conflict with worker interests.

The third form of members' capital is reserves, or retained surpluses. In the early ICOM conversions, many stipulated that a high proportion of surpluses should be retained collectively rather than distributed as bonuses to individual workers; for instance, at Scott Bader at least 60% of any surplus is compulsorily allocated to collective reserves, with the balance available for social objectives or allocation as bonuses. The principle of a high proportion of collectively retained earnings also applies in the many new co-ops formed under ICOM rules. The use of accumulated reserves as a source of finance is a difficult issue for many co-ops; poor commercial performance combined with a desire to pay adequate wages limits the ability to accumulate and tends to keep the reinvestible surplus down, but difficulties in obtaining external finance mean that reserves are necessarily an important source of finance.

The ICOM format is unusual by European standards. In France, Italy and the Spanish Mondragon co-ops, a requirement that workers buy shares is typical, and members' shareholdings (and loans) are important sources of finance for co-ops[42]. Co-ops in these countries tend to have a more individualist ethic, contrasting the collective approach of ICOM co-ops. At Mondragon, all workers must on joining a co-op pay an 'entry fee', which "forms the basis for self-financing the costs involved in one's job"[43]. In 1977 the entry fee was equivalent to about 6 months earnings (although the exact amount varies according to a complex formula), which can largely be paid from wages in instalments after joining. Most of the fee is credited to the individual's capital account with the co-op, while a small portion goes into collective reserves. If the co-op makes a surplus, this is allocated between individual accounts, collective reserve and social fund; the same applies if a loss is incurred. Members cannot withdraw their individual accounts until retirement, There is clearly the potential for quite unequal accumulation by workers in co-ops with different levels of

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41 ICOF, 1987.

42 See Thornley, 1981, chapter 7 on France, chapter 8 on Italy; Thomas & Logan, 1982, chapter 4 on Mondragon.

43 Thomas & Logan, 1982, p. 149.

performance, although Thomas & Logan report that the spread of wealth in Mondragon is narrower than inequalities deriving from incomes[44].

In French co-ops, members are encouraged to purchase shares and to make loans to their co-op, and a minimum financial contribution is a condition of membership. This is both for reasons of increasing available finance, and to generate materialist worker-commitment to the co-op. Similarly, in Italian co-ops members are encouraged to purchase shares and make loans.

The issue of members' capital contributions is a contentious one. For ICOM, minimal and equal contributions are crucial in establishing an environment of equality between co-op workers. Oakeshott takes a diametrically opposed position: members should be encouraged to contribute sufficient capital to 'buy' their jobs, and individual shares provide a self-interested incentive for workers' commitment to the enterprise.

The ICOM model has been criticised for adversely affecting co-op performance, on the basis that it has reduced the ability of co-ops to raise finance, and through its impact on individual workers' incentives. Oakeshott takes the latter position, and encourages co-ops to use individual workers shares and capital accounts. For him, a crucial aspect of co-ops is that they overcome traditional divisions between management and workforce, and engender a commitment by the workers to the objectives and success of the enterprise. Such identification with the enterprise by the workforce is considered to be crucial in achieving high productivity and overcoming conflict within industry. It is argued that collective or common ownership of a co-op, and retention of any surplus as a collectively held reserve, will give the workforce little incentive to contribute towards better productivity and enterprise performance:

> Workforce members will have little incentive to maximise profits which are reinvested or retained on collective account because, apart from extra job security, they will individually derive no material benefit when that happens. Collective ownership of this kind could, therefore, become a major disincentive to profit maximisation - and could well be self-defeating in that its main objective is to increase the company's financial strength (I say nothing about the moral and social objectives of collective ownership).[45]

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44 Ibid, p. 159.
45 Oakeshott, 1978, p. 84.

This approach elevates the business and productivity aspects of co-ops above all others. Oakeshott justifies it by referring to the nature of human activity in a capitalist world, seen as driven fundamentally by individual self-interest. The analysis can only be sustained by treating the economic as distinct from the moral and social (as he himself admits); as we have seen in Part I, this is integral to the neoclassical and social democratic perspectives. It contrasts with ICOM's approach, which aims to develop a collective and socially orientated alternative co-op movement, changing the world rather than reflecting - and therefore reinforcing - the status quo. And indeed it is difficult to see how the promotion of an economy based fundamentally on self-interest is compatible with the ideals of co-operation.

Oakeshott has established an organisation to promote co-ops in this favoured form, whose philosophy is encompassed in its name - Job Ownership Ltd. JOL has broadly adopted the Mondragon structure, whereby workers must contribute an entry fee on joining the co-op. Because surpluses (or deficits) are largely credited to the individual accounts, co-op members share in the growth of the co-op's asset value and withdraw this on retirement. Although these individual 'shares' are not marketable, Oakeshott considers that the prospect of individual's capital growth is an incentive which is a major component of Mondragon's success.

> The value of the stake will rise or fall depending on the fortunes of the enterprise. This is the condition which, by creating a direct link between the interests of the members and the enterprise, ensures genuinely responsible behaviour and a positive attitude to productivity ..... the commitment of the workforce needs to be secured by the requirement of a meaningful capital stake.[46]

Oakeshott's objection to the collective ownership of capital and profits is that it hinders commercial performance, and ultimately reduces the chances of co-op survival (or at least of growth and expansion) and hence the impact which co-ops can make - although this does raise the question of whether successful JOL co-ops would be any different to small businesses. This will be discussed further in Part III; at this point it is sufficient to bear in mind that Oakeshott's concern is with reforming, not transforming capitalism.

Others also consider that the ICOM position has adversely affected co-op performance, although for different reasons. In particular there is concern is not with incentives and employee motivation, but with an overall shortage of finance and the impact this has on

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46 *ibid.*, pp. 213,243.

co-ops ability to survive and grow. In their investigation of the feasibility of establishing a co-op sector in Wales along similar lines to Mondragon, Logan and Gregory consider that the ICOM structure

> has imposed a major constraint on the ability of common ownerships to raise capital, since the ICOM rules have been based on an elitist and purist view of the principles of co-operativism rather than any pragmatic acceptance of business reality[47].

That is, restrictions on members share contributions and loans will lead to problems of under-financing, which will in turn cause poor performance. ICOM's stance on share issues is also criticised by the Co-op Union and the national CDA, as well as commercial banks. To a certain extent the criticism is well founded; ICOM itself grew from Scott Bader[48], and its early co-ops were all conversions from established private firms in which finance was not a problem and where social objectives could receive priority; this contrasted with the CPF co-partnerships, whose rules emerged out of necessity in harsh circumstances[49]. Logan and Gregory consider that the appropriate way to counter the intrinsic weakness of co-op's capital structure is to tap members' contributions.

> It is plain that a major debate is called for on the question of how capital is to be raised for co-ops. The Italians, the French and the Basques have all adapted in more or less pragmatic ways to the need to face 'market forces', while at the same time denigrating their effects upon society. This may well explain why their structures have enabled the co-op enterprises to play a more significant role, in terms of both output and employment, than has been the case in Britain. In Italy there is no restraint on interest payments on loans, in Mondragon the individual member participates in the growth of assets while maintaining liquidity and avoiding decapitalisation through restraint upon the distribution of surpluses throughout his working life.[50]

However this fails to address the point that in Britain many members of today's co-ops are poor, formerly unemployed or active in marginal and highly exploited areas of the labour market. It is unlikely that they would have access to financial resources on any significant scale[51]; Munro comments that, in London, "personal funds provide a very limited source of capital"[52]. Certainly this would restrict further the relevance of co-ops, to those who are already comfortably off (the 'middle class') and who could afford this contribution.

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47 Logan & Gregory, 1981, p. 94.
48 See chapter 5.
49 Thornley, 1981, p. 43.
50 Logan & Gregory, 1981, p. 95.
51 Stott, 1985, p. 23.
52 Munro, 1986, p. 6.

Furthermore, an increasing proportion of co-ops registering in Britain do so under the Companies Acts, which do not restrict the interest paid on loans (although individual co-op constitutions may do). Even with limits on interest payments, it seems unlikely that members are deterred from making loans to their co-op by this factor, as interest paid can compare well with returns available elsewhere. The constraints are likely to be concern with the very high risk associated with investing in co-ops, and an absolute lack of funds on the part of members, rather than a decision to invest money elsewhere because of interest rate considerations. In fact a high proportion of new co-ops (ICOM and others) do make use of members' loans in early years; but the amounts tend to be small, evidence supporting the view that workers simply do not have funds available. Members funds (loans and reserves) have in fact been the largest single source of finance for British co-ops, *despite* the discouragement of loans and shareholding. It is far more plausible that it has been a lack of external funds which has constrained co-op growth.

Whilst I would endorse the call for a debate on the financing issue, there are other conclusions that can be drawn from the experience of European co-ops, relating to the impact of intervention in financial markets. I will examine these later, but firstly turn to a more detailed analysis of finance contributed by members.

Internal & external finance - gearing

Table 6.1 and Figure 6.1 show the total finance used (on average) by co-ops in each sector and overall, by age of co-op. Total finance used in year 1 covers expenditure on machinery and equipment, stocks, plus trading profit (or offset by a loss) in the first year[53].

Co-ops in the two production sectors require substantially more finance than those in wholefoods, the latter requiring finance largely for stocks rather than machinery and equipment, although in all cases financial requirement depends on both capital-intensity and size of co-ops. Thus clothing co-ops, although relatively labour intensive, have tended to be large often established as rescue co-ops, and hence have the highest initial financial requirement. In all sectors total finance used increases initially. It falls for clothing co-ops after year 2, due to mounting losses; in printing it falls after year 5, although this is largely due to the impact of a very large investment in one co-op which does not appear in years 6

53 The figures are those applicable at the end of each trading year, so year 1's figures are at the end of one year's trading, rather than on the formation of the co-op.

and 7; whilst in wholefoods finance used rises steadily throughout as co-ops accumulate and expand.

Table 6.1 Co-op finance: total, and members' funds *(£'000)*

	Printing		*Wholefoods*		*Clothing*		*3 sectors*	
	[a]	*[b]*	*[a]*	*[b]*	*[a]*	*[b]*	*[a]*	*[b]*
1	9.1	30	5.1	58	12.3	-7	7.6	27
2	12.9	30	8.3	50	20.0	29	11.6	38
3	15.6	45	10.8	55	10.5	20	12.1	47
4	47.4	70	15.3	62	13.2	14	24.7	64
5	54.1	42	21.6	58	5.8	3	30.6	48
6	27.3	45	21.5	68	..	..	22.4	58
7	24.9	29	25.6	70	..	..	25.4	58

[a] average total finance per co-op, £'000
[b] % of total provided by members (loans and reserves)

Source: own data, drawn from London ICOM (1987); Companies House, Registry of Friendly Societies.

Figure. 6.1 Average finance used by co-ops, by sector and age *(£'000)*

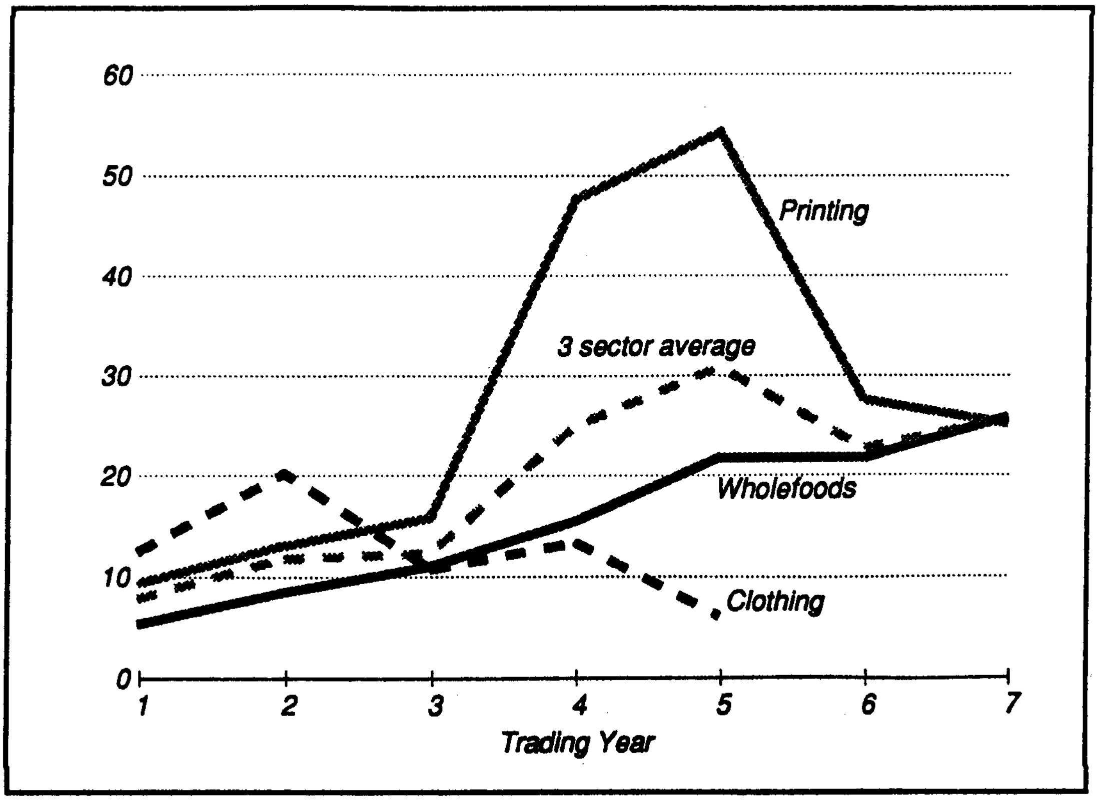

Table 6.1 also shows the proportion of total finance which is provided by members, whether in the form of loans or retained surpluses. It shows that co-ops in the three sectors started off with an average of just under 30% of total finance provided by members, increasing steadily to to just under 60% in years 6 and 7.

There is substantial variation in the proportions of internal funds used in each sector:

• printing co-ops use a similar proportion of members' funds as the overall figure for the three sectors, except for the older co-ops (years 5,6,7) where printing has a lower proportion;

• wholefood co-ops have a consistently high proportion of members funds (varying between 50% and 70%).

• clothing co-ops have a consistently lower proportion (varying between -7% and 29%, with a steadily falling proportion of internal funds over time.

It is difficult to make direct comparisons between the financial structure of co-ops and capitalist firms. An initial attempt can be made by considering the proportion of total funds derived from external funds as analogous to the gearing ratio of capitalist firms. On this basis the co-op results can be compared with those obtained by Storey for small firms in the north-east[54]. He found that firms which failed carried a higher proportion of external funds, and also that this proportion increased dramatically in the years prior to collapse. Continuing firms had an average (mean) gearing of 15%, which did not vary a great deal over time. Thus co-ops in all of the sectors studied had higher gearing than Storey's small firms.

It would be unwise to extend this finding to conclude that co-ops are more likely to fail *as a result of this*; there are limitations on the general comparability of co-ops and small firms, especially given their different relationships to finance capital, and these samples are not in any way matched. If co-ops do have problems in obtaining external funding, then they will tend to have a *lower* gearing, but this would be offset by their lack of equity finance. Comparability is limited; small firms' external funds are almost exclusively commercial funds from banks and finance houses, yet for co-ops, as later examination will show, public sector loans and private (concessionary) sources are crucial elements in the make up of external funds.

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54 Storey et al, 1987.

Although Storey's results are interesting it is important to remember that a correlation between high gearing and a tendency to fail does not mean that one causes the other; in fact gearing *reflects* other aspects of a firm's operation - such as low profitability - and it is these that cause collapse. Thus we should examine whether co-ops' high gearing is caused by the same factors as in capitalist firms, and then ask what are the implications for commercial survival of both.

The different proportions of members' funds used by co-ops in the three sectors will have a variety of explanatory factors and depend upon the availability of finance from a number of sources; it does not necessarily reflect a conscious choice by members, rather the working out of constraints and limitations operating in a number of areas. However, in terms of Storey's findings, it is interesting to note that the clothing sector had by far the highest gearing ratio of the three, increasing steadily over time, as well as the highest failure rate[55]. The comparison does not hold with printing and wholefood co-ops, however, as they show substantially different gearing but very similar survival rates. Further analysis in this and the next chapter will show that the high reliance on external funds by clothing co-ops does reflect intense commercial weakness.

Internal Funds

Evidence from printing, clothing and wholefood co-ops shows that members' funds - from loans and accumulated surpluses - form crucial sources of finance. The two sources have varying importance at different stages of a co-op's development. If co-ops are short of financing then members' loans are of crucial importance in a co-op's early stages. Retained earnings would be more important for established co-ops; obviously they cannot be used until a co-op has reached a certain stage of viability, and even then there is a constant tension between wages and additions to reserves.

Further breakdown of members' funds is shown in Tables 6.2a-6.2d. These show the unsurprising result that accumulated surpluses become increasingly important in both relative and absolute terms, as co-ops grow older. At the same time, loans from members become less important in relative terms, but the absolute amount remains fairly steady over the first five years.

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55 see chapter 5, table 5.7.

51% of co-ops in the three sectors made use of members' loans in their first year (Table 6.2d), with relatively more printing and wholefood co-ops using them than clothing co-ops (Tables 6.2a,b,c). The average size of members' loans per co-op is also shown in these tables. They start off at just under £4,000 and remain fairly steady until after year 5. Initially they are highest in the clothing sector (£5,000), and yet provide the smallest proportion of total finance of the three sectors (15%), reflecting the high initial finance used by clothing co-ops (see Table 6.1).

In the three sectors overall, members' loans form 25% of total finance in year 1, declining steadily to 4% in year 7 as total finance increases (Table 6.2d). They are much more important in the wholefood sector (41% in year 1 - where they are the largest single source of finance) than in printing and clothing (providing 19% and 15% respectively). These results generally support the proposition that members loans will be more important in co-ops' early years. In printing and clothing co-ops the proportion of members' loans declines over time, whereas clothing is marked by instability; this feature becomes more apparent in the next chapter on commercial performance.

Retained surpluses become steadily more important as a source of funds. Obviously they are virtually insignificant at the end of the first year (2% of total finance) and increase to over 50% of total finance by year 7. The increase is most dramatic in wholefoods (17% to 66%), but less dramatic in printing (13% to 36% in year 6).

To summarise, the overall picture regarding internal funds is as follows:

- internal funds provide between 30% and 60% of co-ops' initial financial requirements, tending towards the upper figure in wholefoods and the lower one in printing;
- there is a tendency for this proportion to increase as co-ops get older. This finding is particularly important as it suggests that external funds (from whatever source) are not being made available in sufficient quantity even as co-ops become established;
- members' loans of are important in establishing co-ops, with an average contribution of £1,900 per co-op in year 1; this relates to average total finance of £7,600 in the same year;
- within internal funds, members loans become steadily less important over time as earnings are retained within the co-op; retained profits become both absolutely and relatively more important as the overall financial requirement increases.

Tables 6.2a - 6.2d Internal finance

Table 6.2a Printing co-ops

	Member loans			Retained earnings	
Age	*% of total finance*	*% of co-ops using*	*average amount (£'000)*	*average amount (£'000)*	*% of total finance*
1	18	57	2.9	0.9	12
2	15	64	3.0	1.9	15
3	17	65	4.0	4.6	28
4	5	63	4.0	30.6	65
5	5	50	5.0	20.2	37
6	6	54	2.9	10.7	39
7	3	43	1.5	6.1	24

Table 6.2b Clothing co-ops

	Member loans			Retained earnings	
Age	*% of total finance*	*% of co-ops using*	*average amount (£'000)*	*average amount (£'000)*	*% of total finance*
1	18	37	5.0	-2.7	-22
2	15	36	5.1	3.9	19
3	17	44	3.3	0.7	6
4	5	43	1.9	1.0	8
5	5	50	1.4	0.6	-10

Table 6.2c Wholefood co-ops

		Member loans		*Retained earnings*	
Age	*% of total finance*	*% of co-ops using*	*average amount (£'000)*	*average amount (£'000)*	*% of total finance*
1	18	53	3.9	0.9	17
2	15	57	4.1	1.8	22
3	17	54	4.0	3.8	35
4	5	54	3.7	7.5	49
5	5	35	3.2	4.4	53
6	6	38	2.9	13.5	63
7	3	39	2.7	16.9	66

Table 6.2d 3 sectors

		Member loans		*Retained earnings*	
Age	*% of total finance*	*% of co-ops using*	*average amount (£'000)*	*average amount (£'000)*	*% of total finance*
1	18	51	3.8	0.1	2
2	15	55	3.9	2.2	19
3	17	56	3.9	3.6	29
4	5	56	3.6	13.7	56
5	5	39	3.7	13.2	43
6	6	44	2.8	11.7	52
7	3	40	2.3	13.7	54

Source: as for Table 6.1

INTERVENTION IN FINANCE MARKETS

Logan & Gregory's argument is that restrictions on members' contributions cause an overall shortage of finance; the major problem with is their failure to consider the extent of intervention in the finance market on behalf of co-ops in the European countries where sizeable co-op sectors exist. It is this intervention which explains the strength of co-ops, rather than access to members' funds. Such intervention is also the basis of much local authority assistance for co-ops in Britain.

The source of this error lies in the overwhelming reliance on and belief in the merits of market processes, and the conviction that co-ops have succeeded because of an acceptance of the 'reality' of market forces. Sometimes the market is explicitly accepted as a set of external forces providing essential discipline and efficiency (as with neoclassical writings and Oakeshott), but even on the left the view is widespread that co-ops in Britain have failed because they have not come to terms with the market and the need to survive in it. This view is clear in the writings of Thornley, and Logan & Gregory amongst others. Obviously the market does exist and affects every aspect of the activities of co-ops; indeed it was argued in Part I that the market is the main source of degenerative pressures on co-ops. This holds the key to an alternative explanation of relative performance of co-ops between countries - that the larger co-op sectors of France, Spain and Italy (compared to Britain) have come about because there has been a much *greater* degree of intervention in the market which has worked to the benefit of co-ops. This applies in product markets, but also in the finance capital markets, where co-ops have access to specialised sources of finance. This factor was a major influence on GLEB in developing their support strategy for London co-ops, as they pointed out that

> Co-ops in France, Italy and Spain appear to have far greater access to external capital than do co-operatives in Britain, though capital raised from members and the re-investment of profits remain important sources in all cases.[56]

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56 GLEB, nd(d).

European experience

France

In some ways French co-ops followed a similar path to those in Britain through the nineteenth century, responding to crises in the economy as ideologically inspired initiatives to maintain jobs and skills. In 1938 the government set up the *Caisse Centrale de Credit Co-operatif* (CCCC), giving financial support, as a bank to provide a more substantial source of external capital for of all kinds of new or expanding non-agricultural co-ops. It is constituted as a union of co-ops, although the state does play a role in its administration, and provides finance only to co-ops.

The formation of the CCCC drastically changed the situation regarding the availability of funds for French co-ops. Until that time, share capital was a vital source of finance, as for the CPF co-ops in Britain, and external shareholders were welcomed - the disadvantages were considered to be outweighed by the need for finance. French co-ops are still encouraged to raise loans and share capital from members - as it provides a basis for borrowing and helps with gearing - but only a few large co-ops have a sufficiently strong capital base to borrow from the conventional commercial banks. For the majority of co-ops the only source of external finance is the CCCC[57]. Loans are basically assessed on commercial terms, although the CCCC does intervene and advise co-ops how to organise their capital structure so as to present a case successfully. In addition it takes a broad perspective on the prospects for a co-op when assessing risk; besides considering financial factors it examines co-ops' methods of operation, commercial position, management, and industrial relations. Although these are factors which any bank should take into consideration when considering making finance available to a company, the familiarity of the CCCC with co-ops means that these factors can be accurately assessed in the co-op context. Despite (or because of) this, lending to workers co-ops is considered to be a high risk activity, and forms only a small part (1-2%) of the bank's funds; the rest goes to other forms of co-ops. Nevertheless, the CCCC does receive some state subsidy and interest rates are low compared to commercial banks; the majority of co-ops do have loans from the CCCC. Its activities have been very important in promoting worker co-ops in France, and

57 or its subsidiary the Banque Francaise de Credit Co-operatif.

although it operates on a commercial basis, government intervention was essential in its establishment and successful operation. And as Thornley points out:

> without the *Caisse Centrale* .... co-operatives would still exist ... but these well co-ordinated and centralised sources of funds have increased the size of the movement and strengthened sections of industry where co-operatives are important[58].

And although new co-ops in France do face financial problems, these are less severe than in Britain. Finally, for co-ops with a very weak capital structure, small loans are available from the movement's central organisation SCOP[59].

Italy

Unlike France, there has been no generally available specialist source of finance for co-ops in Italy, and as a result lack of finance has probably been their greatest single constraint[60]. Despite this the sector in Italy is much bigger than in France and Britain, due to the protection which co-ops have enjoyed in the product markets rather than finance market[61]. The state has offered contracts to co-ops on favourable terms, primarily in public works. There has also been strong political and labour movement support of co-ops, and the collective planned organisation of the wider co-op and labour movements has brought them together in a network which offers protection from a hostile environment.

The situation is exacerbated by a poor relationship between the co-op sector and commercial banks. The reluctance of the banks to make finance available has led the state to make some loans on favourable terms to co-ops, but only for certain limited purposes and not as a general principle. Finally, the *Lega* has established its own financial arm, *Fincooper,* which negotiates on behalf of co-ops with commercial banks and with the government; it uses its assets to underwrite loans raised elsewhere and can offer slightly more favourable rates. Fincooper has also established and administers a revolving loan fund, raised entirely from within the movement, from which co-ops can borrow at a rate of 1.75% below the prevailing bank rate[62]. In most Italian co-ops members' investment in shares and loans is considered to be critical to success, and in many cases these are the only sources of finance. This reflects more than anything else the unavailability of funds from elsewhere. There is no

58 ibid., p. 145.
59 Societes Co-ops Ouvrieres de Production.
60 Thornley, 1981, p. 157.
61 see chapter 11.
62 Blackley, 1986.

bank specialising in funding for co-ops, and the co-op federations have complained of too little help from the state[63].

Spain

The much-praised success of the Spanish Mondragon co-ops cannot be dissociated with from the highly interventionist role of the group's bank, the *Caja Laboral Popular (CLP)*[64], and the extent to which the CLP itself was the product of the interventionist Spanish state. Although much Spanish economic policy throughout the Franco era was highly favourable to Mondragon - particularly the protection of newly developing industries from foreign competition - the role of the CLP cannot be overemphasised. In a detailed and closely argued analysis of the Mondragon phenomenon, Fairclough points out that the CLP:

> represents an intervention in the co-operatives' favour, primarily in the markets for *financial* capital rather than the *product* marketing provided by allied retail co-operatives. The CLP has given the Mondragon producer co-operatives the most crucial form of market protection because it has avoided the otherwise ubiquitous problem of raising capital which producer co-operatives face ..... the Mondragon group's expansion has been facilitated, perhaps above all other internal factors, by possessing an exclusive capital market in the form of a secondary savings bank whose main profitable investment has been restricted, *by law*, to the associated co-operatives. From the 1960s, the co-operatives had more capital in their own co-operative bank than was required for investment by the member co-operatives in the group. This provided the engine of rapid capital accumulation in the group during the 1960s. The scope for the existence of such an institution was, in turn, a product of the state's intervention in the functioning of financial capital markets and financial institutions during the period of Spain's rapid industrialisation. (emphasis in original).

Fairclough analyses in some detail how the combination of fascist efforts to contain the threat of independent working class opposition and democracy, and to transform Spain from a rural, agricultural economy to an industrialised one, provided a legal, political and economic environment which was highly favourable to the growth of the Mondragon co-ops. For a fuller understanding of this success, it is necessary to examine how the CLP operated and the nature of its relationship to the individual co-ops.

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63 Thornley, 1981.

64 The CLP was set up as a credit union in 1959 by some of the early Mondragon co-ops; its aim was to take savings deposits from the community and make funds available exclusively to co-ops, as well as acting as banker to the co-ops themselves. It now has 93 branches throughout the Basque country and beyond. For more details on the activities of the CLP see Logan & Gregory 1981, Thomas & Logan, 1982; Oakeshott, 1978; Bradley & Gelb, 1983; Fairclough, 1987; GLC, 1986;

65 Fairclough, 1987, p. 7-8.

The conventional banking aspect of the CLPs role is to ensure that new or expanding co-ops have sufficient finance available. After securing some finance from members' 'entry fees', co-ops can obtain some assistance for new investments from the central government, which can make available low interest loans or grants through the National Labour Protection Fund. However the CLP almost always provides the bulk of finance required - usually around 70% - in the form of medium term loans.

The distinctive aspect of the CLPs role is not just the mobilisation of community savings for exclusive lending to co-ops, but the interventionist position it takes once it is financially involved with a co-op. The relationship is formalised in a legally-binding Contract of Association between the co-op and the CLP. Under this contract, a co-op is eligible to borrow from the CLP, and to participate in the CLP's General Assembly[67], and in return must supply the CLP with its annual audited accounts and plans, and monthly performance reports. The CLP maintains a sizeable Management Services Division (the *Empresarial*)[68], which provides managerial and technical expertise to associated co-ops, particularly for those in difficulty. More important are the services which it provides to the Mondragon group as a whole in terms of co-ordination and strategic planning.

The banking division of the CLP works closely with the Management Services division. Complex planning is required to achieve the successful banking operations that fulfill legal requirements and satisfy the group's socio-economic aims, meet the needs of individual co-ops and also bring sufficient financial returns to meet long-term liabilities. All these depend upon the health of the group as a whole; here the *Empresarial* plays a key role by providing expertise in all aspects of planning and development both for individual co-ops and for the group.

The role of the CLP is therefore highly interventionist; not only does it insulate associated co-ops from the conventional problems associated with lack of finance, but also from the degenerative influences of the capital market. On the contrary, the provision of finance is associated with positive influences; the result of this system is to extend to the modest sized individual enterprise a range of intelligence and management and technical expertise, as well as capital, that is usually available only in large firms. It is also significant that

66 Logan & Gregory, 1981, p. 41.
67 The CLP is actually a secondary co-op with worker co-ops amongst its members.
68 In 1978 it employed 100 experts (Thomas & Logan, 1982).

Mondragon co-ops are not concentrated in the typical labour-intensive industries, but are distributed throughout manufacturing industry, as a result of the availability of finance. Furthermore, the bank plays a crucial role in planning Mondragon's co-operative economy, undertaking the broad management role which has been lacking from British banks with such serious implications for the performance of British industry. There have been complaints that the interventionist role of the CLP infringes individual co-ops' autonomy. However this needs to be accompanied by an appreciation that this role has contributed to the great strength of the Mondragon co-ops. Although co-ops surrender some of their independence to the CLP, the advantages of the CLP's financial and management services expertise are substantial. There is no reason to believe that operating without the CLP in the market would give co-ops any more autonomy - their subsequent weakness would most likely result in even greater problems.

Britain

The experience of European co-ops and their relationships to capital - as part of a broad process of intervention in markets to protect co-ops - has important lessons for the development of the co-op sector in Britain. Later in this chapter I will examine the position of British co-ops with regard to sources of finance; at this stage I will review developments in the availability of finance over the past ten years.

Industrial Common Ownership Finance

The first attempt to establish a loan fund specifically for co-ops came in 1973 with the formation of Industrial Common Ownership Finance (ICOF) as a subsidiary of ICOM in 1973. Initially ICOF was established to channel funds from Scott Bader and other sympathisers into loans for co-ops. It received a major boost when given a grant of £250,000 under the 1976 Industrial Common Ownership (ICO) Act, to establish a revolving loan fund for *bona fide* common ownership co-ops. This principle was extended in 1983 when the West Midlands County Council established a fund of £500,000 to be administered by ICOF for lending to co-ops in the West Midlands area, and in 1987 two smaller regional funds have been established - £100,000 for West Glamorgan and £20,000 for Northampton. ICOF's original source of funds - deposits from sympathisers and co-ops - was cut off in 1979 by the Banking Act; because its lending policies are not considered to be strictly commercial and prudent, it does not qualify for a deposit-taking licence from the Bank of England. In order to compensate for this and to raise sufficient funds to continue and expand operations, ICOF has recently (late 1987) undertaken a successful share offer of £500,000, raising money from individual, co-op and institutional sympathisers. The issue involved selling 10-year, non-voting, redeemable preference shares in a subsidiary of ICOF established to raise money for lending to co-operatives.

This marks a change in ICOF's operation. In the past the bulk of its funds have come from public sources - either from central government under the ICO Act, or from local authorities. The share issue moves back towards the original intention of raising finance from within the co-op movement and those sympathetic to it. No funds will have been lent from this source before 1988, but in future, it may be more appropriate to consider ICOF as part of private, non-commercial funding for co-ops.

Over the past decade ICOF has become one of the main sources of short to medium term finance for British co-ops. Between 1973 and 1986 it lent over £1m to over 100 co-ops, with an average loan of £7,000 and terms from 6 months to 6 years. Although ICOF assesses loan applications according to broadly commercial criteria - in that co-ops must show good prospects of being able to repay any loans - its familiarity with co-ops enables commercial risk to be evaluated in a more constructive way than conventional banks, as with the French *Caisse Centrale*. The terms of its loans are also more favourable than those afforded by commercial banks: security is required in the form of fixed and floating charges over co-op assets, but where sufficient security is not available ICOF can take a 'flexible' view, and has on occasions waived this requirement if it considers the project to have other features which make a contribution to the co-op sector[69]. Perhaps more importantly, ICOF does not require personal security from a co-op's members; the importance of this principle is illustrated by ICOF's refusal to abandon it in order to gain a deposit-taking license from the Bank of England[70]. Interest rates are related to money market rates and to ICOF's costs, and are generally marginally below those charged by commercial banks on business loans.

The terms of ICOF funds are therefore relatively favourable for co-ops, but can only provide a limited source of finance in relation to total needs. At the end of 1986 the General Fund (i.e. not reserved for particular areas) stood at just £160,000; compare this with the £200,000 required by the London printing co-op Lithosphere for its expansion programme in 1984. As

69 Thornley, 1981, p. 72.
70 ICOF, 1987, p. 7.

a result ICOF can only make small loans, although even loans of under £10,000 can be of crucial importance to co-ops when starting up. The West Midlands Fund stood at £380,000 at the same date.

ICOF is proud of its track record in granting loans:

> In the five year period 1982-1986, the ICOF General Fund experienced an annual write-off rate of 10% of loans. This compares favourably with the bad debt rate amongst small businesses experienced by the commercial banks.[71]

But despite this success, even a 10% annual write off will deplete the fund within 10 years unless topped up by subsidies or operating surpluses. Problems in this area are illustrated by both funds being well below their original levels, and in none of the last five years was interest receivable sufficient to cover operating expenses and write-offs. This is partly due to the relatively high cost of administering such small loans[72] coupled with favourable terms to borrowers, and partly to the lack of profitable and low-risk large loans to compensate as is the case with commercial banks. It also reflects ICOF's progressive policy of funding new co-ops and strengthening existing ones; if it assessed co-ops in the same way as banks assessed small firms it would primarily be funding well-established enterprises. Clearly ICOF requires an effective subsidy if it is to continue with its work.

ICOF operates under much less favourable circumstances than Mondragon's CLP. The latter has much greater resources and flexibility to take deposits from the public, and also enjoys significant tax concessions which effectively reduce the cost of its funds. It also benefits from a much greater spread of lending, including the profitable large low-risk loans to established co-ops which ICOF lacks.

Local authority/CDA loan funds

The establishment and success of ICOF was largely the result of an initiative from within the co-op movement (through ICOM) and a successful lobbying effort which resulted in the passing of the favourable ICO Act[73]. Since 1980 it has been the activities of local government, mostly labour-controlled authorities, which have continued intervention in the finance market on behalf of co-ops.

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71 Ibid., p. 6.

72 The cost of administering the ICO fund was met by the Department of Industry until 1981.

73 Although there was luck involved here: the Act originated as a Private Members Bill, and was only passed due to the good fortune of its sponsor in achieving a high place in the ballot for such bills in the Commons. (New Co-operator special supplement, summer 1986).

The most substantial initiative was launched in London by the GLC, following the Labour victory in 1981, while the metropolitan counties generally followed suit, as did some city and borough councils. Financial support for co-ops was part of a more general strategy of intervention in the local economy, aimed at countering the problems of restructuring and unemployment[74]. In London GLEB was established to put the GLC's policies in this area into effect, with funding of £32m for the year 1983-4, and its operation included making loans to co-ops. A Co-op Unit was established within GLEB to develop its strategy towards co-ops, and subsequently in 1984 the London Co-op Enterprise Board (LCEB) was established as a spin-off from GLEB to deal with smaller co-op projects. LCEB deals with relatively small loans, the intention being that sums over £25,000 would be dealt with directly by GLEB. In addition GLEB made small sums (up to £20,000) available to local CDAs in London for disbursement to co-op initiatives.

The activities of GLEB made a substantial impact on co-ops in London, and by April 1986 the board had directly or indirectly loaned £3.5m to 215 different co-ops in London. In addition £1.7m was spent on other co-op initiatives, particularly training programmes for co-op and CDA workers. It is estimated that 59% of all co-ops trading in London over the period 1983-1986 received financial support from GLEB or one of its delegated programmes. Such finance was by far the most important source of external funds for co-ops[75].

An important aspect of the GLEB/LCEB initiative is the linkage between the financing of co-ops and the GLC's wider objectives[76]. The GLC supported co-ops because they could play a role in the council's policy of 'restructuring for labour', part of which involved democratisation of ownership and production, and the provision of opportunities for workers marginalised in the labour market. As a result, criteria for assessing applications for loan finance were broader than simply profit and loss considerations[77].

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74 This strategy was funded using the product of a 2p rate under S.137 of the 1972 Local Government Act.

75 Munro, 1986; CAG & Thornley, 1987.

76 The GLC's policy is examined in more depth in Part III.

77 Criteria which increased eligibility for grants and loans favoured:

- *labour intensive investments*
- *co-ops linked economically to other co-ops*
- *co-ops whose structure of control involved members of the community within which the co-op operates*
- *training provisions and links with relevant training schemes*
- *provision of child care facilities*

(derived from GLC Economic Policy Group, 1985)

Further criteria were developed by LCEB which gave priority to co-ops established by black and women workers.

Although GLEB and LCEB survived the GLC's abolition in 1986, the conditions under which they operated were drastically altered. GLEB in particular was changed from an organisation promoting progressive restructuring in London's economy to a conventional venture capital organisation; the Co-ops Unit was effectively disbanded, loans are now made only on strictly commercial criteria, and at least one co-op has been converted back into a capitalist enterprise, whilst another large co-op has ben encouraged to change from a collective to hierarchical structure[78].

By early 1988 LCEB had approved loans totalling £1.5m during its 4 years of operation. Despite its success in assisting London's co-ops, LCEB suffered similar problems to those of ICOF, its portfolio consisting of small loans which are expensive to administer. LCEB's policy of targeting marginal and disadvantaged workers also means that loans suffer a high rate of failure; of the £884,000 outstanding as loans to worker co-ops in February 1987, fully £450,000 had been provided for as doubtful debts[79]. This may reflect cautious accounting policies, but by February 1988, of £1.37m actually disbursed as loans over the 4 years, some £258,000 had actually been written off, in addition to the bad debt provision. LCEB's activities have been dependent upon GLEB for both lending resources and meeting running costs; income from interest charged on loans (at 10%) is insufficient to cover overheads (£200,000 in 1986/7) and bad debts. The major changes taking place in local government since 1986 have also constrained LCEb's ability to aid London's co-ops; grants received fell from £623,000 in 1985/6 to £234,000 in 1986/7.

Other metropolitan counties followed the GLC's example, most notably West Midlands County Council. Besides the fund administered by ICOF, the council established West Midlands Co-operative Finance Ltd., with a block grant of £700,000 for the first year. This company provides loans and other assistance to co-ops, and was administered through the Economic Development Unit of the council; its lending policies are more conservative than those of the original GLEB.

Most local authorities do not have the financial resources to set up substantial loan funds of this kind, and so some authorities have gone into partnership with the Co-operative Bank to provide a loan guarantee scheme[80]. Under this arrangement the authority guarantees a loan

78 The Lettering Centre and PAS respectively.
79 LCEB, 1988.
80 Stott, 1985, p. 25.

made by the bank to a co-op at a lower interest rate than normally available, and the scheme has been adopted by Sheffield, Merseyside, and the London boroughs of Haringey, Southwark and Waltham Forest.

Other authorities have financed the establishment of loan funds for co-ops, usually administered by the relevant local CDA. In 1986 there were 12 such funds in operation[81], although all were small in comparison to the West Midlands and London funds; collectively they had access to a total of approximately £900,000, an average of £75,000 per fund. These funds were all established in the first half of the 1980s, a period when Labour-controlled local authorities were most active in local economic intervention[82]; all funds relied exclusively on local authority financing[83], generally through S.137. By the end of 1986, it was reported that 8 of the 32 London boroughs had funds available for co-ops, either as specific loan funds or direct allocation of council funds.

Because of the small size of these funds, they can only advance small loans to co-ops; there is generally a £10,000 upper limit. Loans are short to medium term - six months to six years, as with ICOF. Terms are almost always preferential to those which would be advanced by commercial banks, even if co-ops could get loans from this source: interest rates in all cases are lower than those charged by banks, varying from 0% to 12% in mid-1986; in addition about half of the funds offer interest and/or capital repayment holidays in the first year. This concession can have an important beneficial effect on a co-op's finances in the crucial start-up period. The attitude towards security varies considerably: in general some form of security is required, but in one third of cases no security was taken; this has the advantage that a co-op's assets can be used to secure additional borrowing elsewhere.

The NNLCDA survey investigated the nature and use of local authority loan funds, and found a very high usage of these funds and specialist sources, especially by new co-ops. The impact of specialist funds is unsurprisingly greater when more money is available: therefore 50% of all co-ops in the West Midlands have received loans from the WM-ICOF fund. Individual funds reported that they had assisted between 10% and 80% of co-ops in their area, with an average of around 50%. Altogether such funds (including ICOF and GLEB/LCEB) had made loans totalling £5.1m to 360 co-ops by mid-1986; relating this to the

81 NNLCDA, 1986; this is also the source for data in the next two paragraphs.
82 The Liberal Party has also had a positive approach to co-ops throughout this period.
83 Except for one fund which raised money in 1981 from the DoE's Urban Programme.

figures in chapter 5, this means that probably 40% of all co-ops have received finance in this way.

Most of the funds are too new for an accurate picture of the write-off rate for loans to have emerged, although there is no reason to expect it would be any less than the 10% p.a. achieved by ICOF. Given the relatively low interest rates charged, this suggests that most funds will experience problems within a few years as the total available for lending falls. There are ways to counter this problem. Firstly, the costs of administering the funds is generally met either from the general costs of running the CDA, or directly by local authorities, which reduces or eliminates the burden of overhead costs on the funds. Secondly, local authorities can top up the funds as they are diminished, and in some instances there is a formal arrangement that this will be done.

Public-sector finance - prospects

The availability of publicly-provided finance for co-ops, through local authorities and CDAs, transformed the financial resources available to co-ops in the early 1980s. For the co-ops considered in the current research, the public sector (including ICOF) was the largest single source of funds - providing 42% - in co-ops' first year. However, the particular circumstances of the early 1980s when these funds were established no longer apply, and it is likely that local authorities will be less likely to commit funds in the future. The NNLCDA survey reported pessimism amongst some of the older funds about receiving further local authority support. The reasons for this are:

• Since 1985 the metropolitan authorities have been abolished, and many remaining Labour authorities have been rate-capped, limiting their resources available for economic development;

• there is severe competition for the limited funds available, with CDAs competing with a variety of small business development agencies;

• the initial enthusiasm for worker co-ops is likely to be diminished as a more realistic assessment of their job creation and socio-economic potential is made in the light of experience;

• with the entrenchment of Conservative domination of central government, the impetus behind co-op development will be further oriented along small business lines, and support for co-ops from public funds is likely to be reduced[84].

Although some loan funds have recently been boosted by local authority attempts to establish external projects in advance of major restrictions on expenditure imposed by the Conservative government, over the longer term they are unlikely to receive continued funding without a more sympathetic central government. If co-ops have access to public sector funding, this is increasingly on the same basis as small capitalist enterprises rather than specialist sources for co-ops.

Sympathetic finance

A second form of protection for co-ops from competition in capital markets results from the availability of private sources of finance from sympathisers and supporters - sources which do not operate solely on commercial criteria and which are willing to sacrifice some financial gain in the pursuit of other objectives. This was used extensively by wholefood co-ops, many of which were formed early in the co-ops boom when there were few alternatives, and they drew upon and already-existing network of supporters and sympathetic customers willing to contribute. It can include loans from one co-op to another - the wholefood co-op Suma has in the past assisted the establishment of new retail wholefood co-ops - but more typically includes sympathetic individual, friends, customers, support groups trusts and charities.

The use of such funds has some analogy to the use of community savings to finance co-ops by Mondragon's CLP. There is nothing developed on this scale in Britain, but recently there have been attempts to formalise the use of sympathetic finance for co-ops. The largest of these has been ICOF's successful 500,000 issue of co-operative shares in 1987. The shares offered a maximum dividend of 6% and an insignificant prospect of capital gain, and yet the offer was over-subscribed, and suggested that there existed a substantial reservoir of potential finance which would be allocated at least partially on non-commercial criteria. This parallels the boom in 'ethical investment' unit trusts and similar funds which avoided investing in 'socially harmful' practices such armaments, alcohol and tobacco production.

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84 see Part III.

Individual co-ops have begun to raise finance in similar ways. The feminist printers Amazon Press, or the gay First Out coffee shop raised money from supporters by the issue of debentures. Paper-recyclers Paperback raised 50,000 from supporters early in 1988 by a loan stock issue, again over-subscribed.

Funding from such sources has been on a variety of terms ranging from interest-free to near-commercial rates, on terms which are generally better than those offered by banks. Perhaps more important is the fact that such funds are not obtained by competing in commercial finance markets but from sympathetic sources, in some way committed to the non-commercial achievements of co-ops. With the decline in public sector financing, such funding is likely to become co-ops' most important single source of external finance.

Sources of funding - summary

Details of the proportions of finance raised from these three external sources - commercial, public sector, and private - are included in Tables 6.3a-6.3d, and illustrated in Figures 6.2, 6.3 & 6.4. The main findings and trends are as follows:-

Private sources: important initially, providing 16% of funds in year 1, declining to to 3% in year 7. As total funding increases, the average amount of private funding remains roughly constant - at £1-2,000 per co-op overall, and £3,500-£4,000 per co-op using finance from this source. The initial importance of private finance is illustrated by it being the most commonly used external source in co-ops' first year - used by 30% of co-ops in the three sectors. However, it is the least common over the longer term (see Table 6.6)

Public sector funds: initially the most important source by value, providing 43% of total finance in year 1 and used by 24% of co-ops. There is an eventual decline to 9% of total finance, but over time, 55% of all co-ops considered make use of public sector funds at some point.

Commercial funds: increasing over time, starting at 14% in year rising to 31% in year 7. This source is used by fewer co-ops in their first year (18%) than any other source, but by more co-ops overall (57%).

Table 6.3 Total finance by source

Table 6.3a Printing co-ops

Age	*Co-ops (no.)*	*Commercial funds* %	*Private funds* %	*Public funds* %	*External finance (total)* %	*Retained earnings* %	*Member loans* %	*Internal finance (total)* %
1	21	17.7	27.4	26.1	71.2	10.6	18.2	28.8
2	22	27.3	19.0	23.5	69.8	15.1	15.2	30.3
3	20	19.0	18.0	16.5	53.5	29.8	16.7	46.5
4	19	20.1	4.6	5.5	30.2	64.6	5.3	69.9
5	16	23.3	3.6	31.1	58.0	37.4	4.6	42.0
6	13	35.0	7.4	12.5	54.9	39.4	5.8	45.2
7	7	59.5	2.4	11.1	73.0	24.4	2.6	27.0

Table 6.3b Clothing co-ops

Age	*Co-ops (no.)*	*Commercial funds* %	*Private funds* %	*Public funds* %	*External finance (total)* %	*Retained earnings* %	*Member loans* %	*Internal finance (total)* %
1	19	12.5	0.4	94.0	106.9	-22.0	15.1	-6.9
2	14	19.9	2.8	48.8	71.5	19.4	9.2	28.6
3	9	31.8	0.0	47.9	79.7	6.2	14.0	20.2
4	7	46.3	0.0	40.0	86.3	7.5	6.2	13.7
5	4	36.3	0.0	61.0	97.3	9.7	12.4	22.1

Table 6.3c Wholefood co-ops

Age	*Co-ops (no.)*	*Commercial funds* %	*Private funds* %	*Public funds* %	*External finance (total)* %	*Retained earnings* %	*Member loans* %	*Internal finance (total)* %
1	47	13.5	22.2	6.1	41.8	17.1	41.1	58.2
2	44	19.0	11.3	19.6	49.9	22.0	28.0	50.0
3	41	15.2	11.8	18.1	45.1	35.1	19.8	54.9
4	37	7.9	14.6	15.4	37.9	49.2	12.9	62.1
5	31	16.4	16.6	8.8	41.8	52.9	5.3	58.2
6	26	18.2	6.3	7.8	32.3	62.6	5.1	67.7
7	18	20.5	2.6	6.8	29.9	66.0	4.1	70.1

Table 6.3d 3 sectors

Age	*Co-ops (no.)*	*Commercial funds* %	*Private funds* %	*Public funds* %	*External finance (total)* %	*Retained earnings* %	*Member loans* %	*Internal finance (total)* %
1	87	14.4	16.1	42.8	73.3	1.5	25.3	26.8
2	80	21.8	11.1	29.6	62.5	19.1	18.4	37.5
3	70	18.5	12.8	20.8	52.1	29.9	18.0	47.9
4	63	17.2	8.0	11.1	36.3	55.6	8.1	63.7
5	51	20.5	9.1	22.0	51.6	43.3	5.0	48.3
6	41	24.8	6.7	10.7	42.2	52.4	5.5	57.9
7	25	31.0	2.6	8.6	42.2	54.1	3.7	57.8

Source: as for Table 6.1

Figure. 6.2 Amounts of total finance from various sources, by age of co-op *(£)*

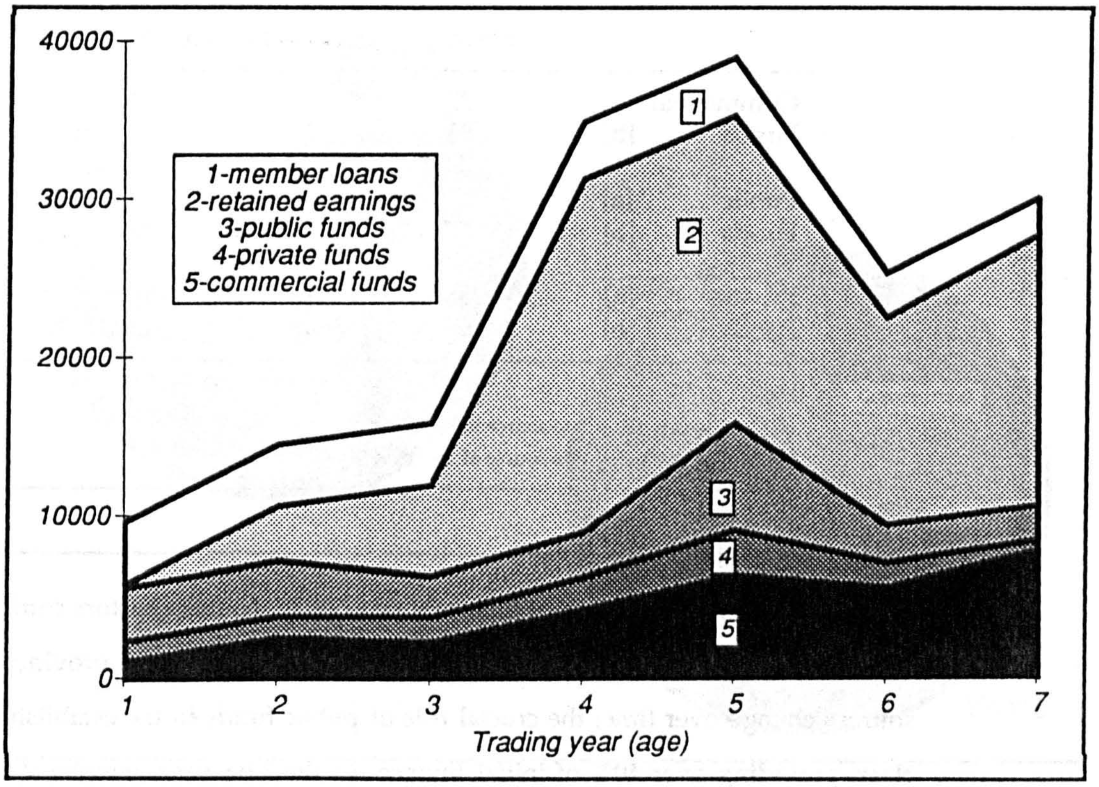


Figure. 6.3 Share of total finance from various sources, by age of co-op *(%)*

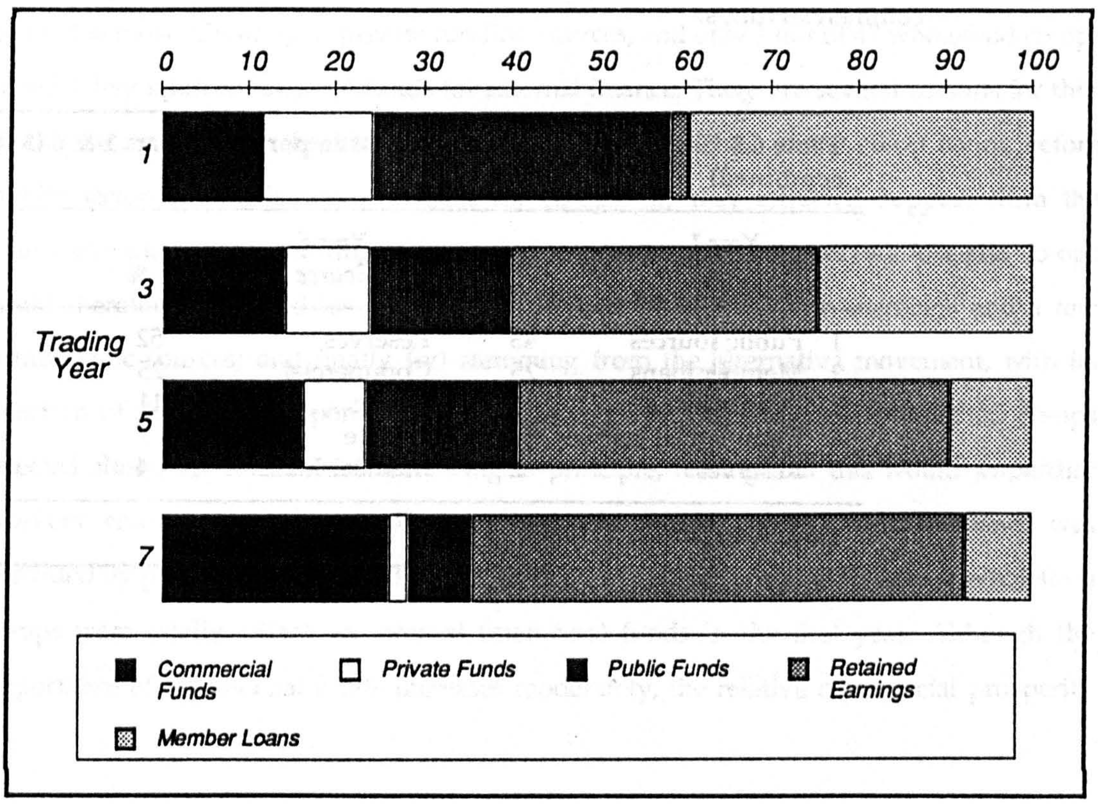


Table 6.4 Co-ops making use of external finance sources (%)

		Printing	*Clothing*	*Wholefoods*	*All*
Commercial	[a]	27	21	13	18
Funds	[b]	82	53	47	57
Public	[a]	27	58	9	24
Funds	[b]	77	74	36	55
Private	[a]	36	11	34	30
Funds	[b]	55	16	45	41

Note:
[a] % of co-ops using this source in first year
[b] % of co-ops using this source at any time

Source: as for Table 6.1

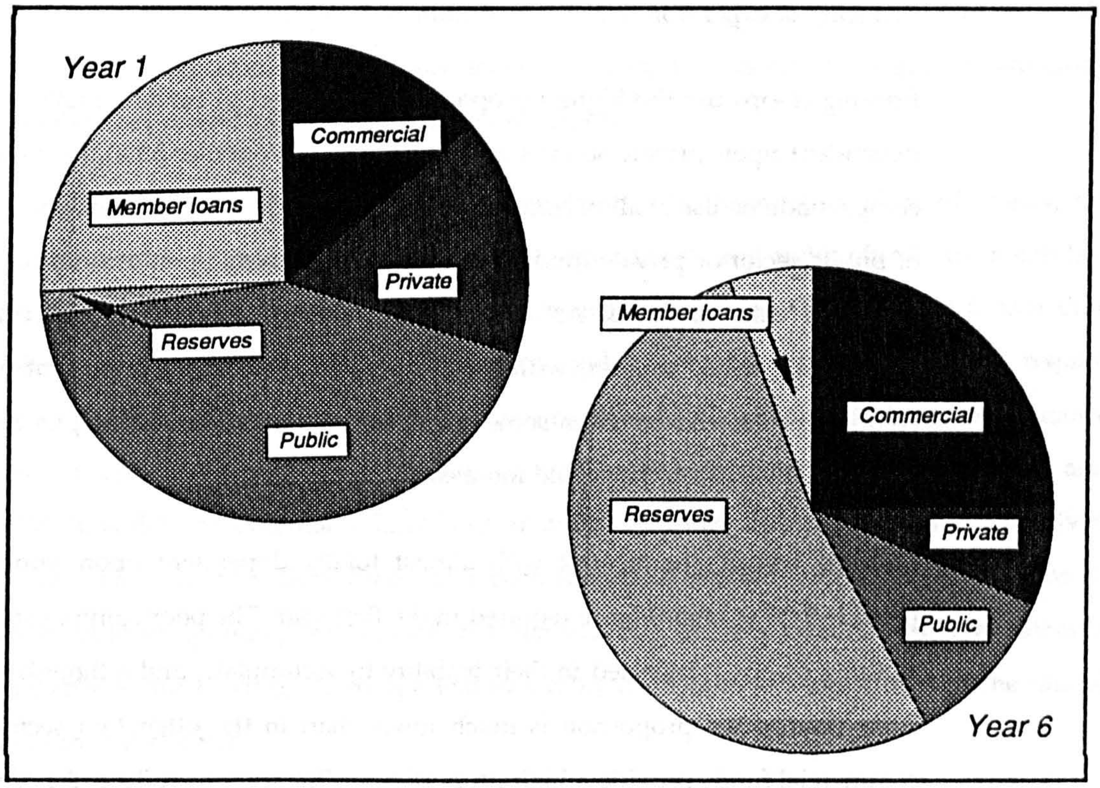
The contrast between sources of finance for co-ops in the three sectors combined is shown in Tables 6.4 & 6.5 and Figures 6.3 & 6.4. The proportions of finance provided by the different sources change over time; the crucial role of public funds in the establishment of co-ops is clear, providing over 40% of initial finance. In the first year, members' loans and public funds together provide 68.1% of total finance; by year 7, 85% is provided by reserves and commercial funds.

Table 6.5 Sources of finance in order of importance, years 1 & 6 (3 sectors combined)

	Year 1 *Source*	%	*Year 6* *Source*	%
1	Public sources	43	Reserves	52
2	Member loans	25	Commercial	25
3	Private loans	16	Public	11
4	Commercial sources	14	Private	7
5	Reserves	2	Member loans	4

Source: as for Table 6.1

Figure. 6.4 Sources of finance, years 1 & 6



These overall results conceal significant differences between sectors. Wholefood co-ops are by far the most reliant upon private funding sources, and only 1 out of 47 wholefood co-ops relied solely upon commercial funds for external finance. There are several reasons for this: (i) they were amongst the first co-ops to become established in the co-op boom, before public sector finance became available for co-ops; (ii) they attracted support from the alternative movement, and (iii) initial capital requirements were relatively low and co-ops could therefore be established with small amounts of finance from members and a few sympathetic sources; and finally (iv) stemming from the alternative movement, with its rejection of dependence upon either the state or private capital, some wholefood co-ops rejected altogether commercial borrowing in principle, fearing that this would jeopardise workers' control over the co-op[85]. Thus nearly two-thirds (63%) of initial finance was provided by private or members' loans. Perhaps most significantly, some 45% of wholefood co-ops were totally reliant on internal (members) funds in the first year. Although the importance of commercial funds increases moderately, the relative commercial prosperity

85 *Although of course this approach fails to acknowledge dependence on the (product) market even if more formal dependence upon the state or finance capital is avoided*

of wholefood co-ops (see next chapter) leads to reserves becoming most important and the financing of expansion from internal sources.

Printing co-ops use the highest proportion of commercial funds initially, but are primarily dependent upon private sources and public funds (together 53%). Five out of 22 printing co-ops made no use at all of commercial funds over the period; all except 2 made some use of public sector or private funds, and only 1 relied *solely* upon commercial finance as their source of external funds. As accumulation takes place, reserves and commercial funds become the major sources, with the former relatively more important. Several printing co-ops were 'converted' from some other form of operation (see chapter 8) and thus had a record against which they could more easily secure bank loans.

Clothing co-ops are to start with almost totally dependent upon public funds, which provide 94% of total finance required in the first year. The poor commercial performance of clothing co-ops is reflected in their inability to accumulate, and although reserves provide some finance the proportion is much lower than in the other two sectors. Surprisingly, commercial funds provide a high proportion of finance; this reflects the high failure rate of clothing co-ops and difficulties in surviving more than 2 or 3 years; those which do remain become well-established and can attract commercial finance. Coupled with this, only 2 clothing co-ops had made no use of public sector funds at some point, and no clothing co-ops were solely dependent upon commercial finance for external funding.

CONCLUDING REMARKS

There are two major findings from this analysis of co-op financing. Firstly, public funds have played a crucial role in the recent growth of the co-op sector, and secondly, co-ops are primarily dependent upon internally generated funds for growth and accumulation.

Typically co-ops are formed as relatively small and severely underfinanced enterprises, which in the past have had to rely disproportionately on workers' own funds contributed through loans. This situation has been transformed by the availability of public funds in recent years, which have become the largest single source of finance for new co-ops; the establishment of specialist financial sources has been one of the most significant developments in the expansion of the sector in the 1980s. Although some initial finance is provided by banks, the second most important source is loans from members themselves.

This casts doubt on Logan & Gregory's claim that changes to co-op structures would generate greater amounts of finance from members, as it is equally arguable that co-op members are providing as much as they can afford.

Despite the important role for public sector finance in the establishment of co-ops, the commitment is not sustained once co-ops are operating[86], and public funds are much less helpful for expanding co-ops than for newly-established ones. One problem is that only relatively small amounts are available from public sources, and that as co-ops require increasingly large sums they are forced to turn elsewhere, primarily to banks and finance houses. The only exceptions are the major loan funds established through the GLEB and WMEB, which can potentially lend large amounts. However, both of the councils involved in the establishment of these funds have been abolished; coupled with tighter restrictions on local authority spending it is unlikely that the situation will improve. Any general cutbacks in public sector funding for co-ops will inevitably contribute to a slowdown in the rate of growth of the sector.

Even with the provision of finance from public sources, co-ops in Britain are far from having the sort of support enjoyed by Mondragon co-ops. Intervention by local authorities can certainly ease the constraints felt by co-ops as a result of under-financing, but it has not been accompanied by any overall strategic planning and management provision for the co-op sector. This element has been crucial to the success of Mondragon co-ops, and the absence of strategic intervention by banks or government has been a major element in the poor performance of British industry. Once established, British co-ops are left at the mercy of commercial sources of finance and the general anarchy of market forces.

There are subsidiary debates concerning the provision of local authority and other public sector finance, in particular regarding the development of new forms of financial instruments which would maximise the beneficial effect of such funding. This covers, for instance, enabling local authorities to provide finance to co-ops in forms other than loans, as these impose severe burdens on co-ops in their vulnerable early stages, and do nothing to overcome the banks' reluctance to lend to highly geared enterprises. As a result a need is perceived for an equity-like form of financing which does not allow those providing

86 This reflects the approach adopted by local CDAs, where maximum effort is expended on establishing co-ops rather than subsequent support.

external capital to gain control or appropriate surplus value. These have been discussed elsewhere[87] and I will not go into the debates any further here.

The second major finding relates to the increasingly important role played by internally generated finance in co-op growth. By the third year of trading, accumulated reserves form the largest single source of finance. Commercial finance increases in importance over time, but remains in second place. By this time the financial structure of co-ops resembles more closely that of conventional firms, who also obtain the majority of finance from internal sources; the 25% of total finance obtained by co-ops from commercial sources is probably not untypical.

The ability of co-ops to grow is largely dependent upon the rate at which they can accumulate directly from earnings. This is dependent upon many factors, some of which are examined in more detail in the next chapter on co-ops' commercial performance. Evidence presented there shows that accumulation, particularly in early years, is typically at the expense of low wages. It does indicate that co-ops are unable to escape from pressures to increase exploitation in order to compete and survive, in the same way as capitalist firms, even though formal class divisions have been abolished within the enterprise.

Although these results cover co-ops which are still relatively new, they do offer some pointers to the future which can be related to the European experience. Eventually co-ops can accumulate sufficiently to overcome problems of underfinancing, and can finance necessary increases in capital equipment. It has been suggested that co-ops

> will reach some maximum size in terms of employment, and then stop growing altogether .... older co-operatives become capital-rich, and unwilling to use their funds in either internal growth, which could threaten the cohesiveness of the collective, or in diversification .... they key problems are .... the over-accumulation of collectively-owned assets and the under-utilisation of external debt.[88]

This is supported by the experience of the British CPF co-ops, which operated in sectors where technical change was relatively slow and through accumulation became cash-rich. However, newer co-ops operate in a wider variety of industries, and even in the more established ones such as printing, technical change and hence financial demands are now much greater; as a result it is too early to predict whether the same will happen to them.

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87 LCT, 1986.
88 Estrin & Jones, 1986.

Moreover, few British or French co-ops operate in capital-intensive industries, and there is little evidence to suggest that co-ops reliant upon their own resources for accumulation are able to become established and survive in such areas. The movement of Mondragon co-ops into such industries has been accomplished in the context of a highly interventionist and protected capital market.

If older co-ops do become cash rich, whilst newer co-ops are starved of finance, then one possible solution might be the establishment of an inter-cooperative capital market. The collective assets of ageing co-ops could be used to finance the creation of new co-ops, and elements of ICOF's operation represent this in an embryonic form. One interesting side effect of this could be that this co-op capital market might demonstrate international capital flows in opposition to those in the capitalist market; that is, the election of a socialist government would normally lead to a capital outflow from the country in question, but funds in the co-op market would be likely to flow into the country in anticipation of a more favourable environment for co-ops[89].

89 I am grateful to Virginie Perotin for this point.

Notes on Financing Tables

1. Full details of data sources etc. are given in Appendix 2. See also appendix 4 on financial structure of co-ops.

2. The numbers of co-ops included from each sector in each trading year is as follows:

Table 6.6 No. of co-ops included

	Year of Trading						
	1	*2*	*3*	*4*	*5*	*6*	*7*
Printing	21	22	20	19	16	13	7
Wholefoods	47	44	41	37	31	26	18
Clothing	19	14	9	7	4	..	..
All co-ops	87	80	70	63	51	39	25

Source: as for Table 6.1

3. The tables in this and the following chapter are based upon all co-ops in the relevant sectors for which adequate financial data is available. Therefore the range of co-ops included is different in each year, diminishing as co-ops depart through being too young or through failure. Table 6.7 below is the equivalent to Table 6.3d, but based on the experience only of those co-ops which survived for 6 years or more.

Table 6.7 Total finance by source - 3 sectors (B)

Age	*Co-ops (no.)*	*Commercial funds* %	*Private funds* %	*Public funds* %	*External finance (total)* %	*Retained earnings* %	*Member loans* %	*Internal finance (total)* %
1	40	14.1	18.0	27.9	60.0	6.1	33.9	40.0
2	41	24.1	11.6	23.6	59.3	19.4	21.3	40.7
3	41	20.8	12.3	16.2	49.3	35.7	15.0	50.7
4	41	11.5	10.4	8.5	30.4	63.7	5.9	69.6
5	41	23.9	14.7	8.3	46.9	47.4	5.8	53.2
6	41	24.7	6.6	8.9	40.2	54.2	5.5	59.7
7	25	30.8	2.7	7.7	41.2	55.2	3.7	58.9

Source: as for Table 6.1

The main contrasts are that the longer lasting co-ops have used:

- lower total finance
- less public sector finance
- greater use of internal funds

which largely reflects the fact that those longer-lasting co-ops were first formed in the 1970s when there was very little public sector finance available for co-ops.

4. The tables in this chapter are presented according to trading year rather than calendar year; therefore any one trading year will include figures from different calendar years, and hence of different real values. Table 6.8 below is a recalculation of Table 6.3d, adjusted to take account of this, with all values adjusted to 1975 prices. It shows very little difference, indicating that using current figures does not introduce any bias.

Table 6.8 Total finance by source - 3 sectors (C)

Age	*Co-ops (no.)*	*Commercial funds* %	*Private funds* %	*Public funds* %	*External finance (total)* %	*Retained earnings* %	*Member loans* %	*Internal finance (total)* %
1	86	13.5	16.6	43.5	73.6	0.1	26.2	26.3
2	80	21.0	11.4	28.8	61.2	19.9	18.9	38.8
3	70	18.2	12.9	20.9	52.0	30.5	17.5	48.0
4	63	16.7	8.6	11.3	36.6	55.3	8.0	63.3
5	51	20.4	9.6	21.4	51.4	43.5	5.0	48.5
6	41	24.4	6.4	10.8	41.6	52.8	5.5	58.3
7	25	30.9	2.6	8.5	42.0	54.3	3.6	57.9

Source: as for Table 6.1

7.Commercial Performance of Co-ops

Introduction

The aim of this chapter is to examine in detail, for the first time, the commercial performance of a broad range of the new worker co-operatives. In the past, knowledge of commercial performance has been restricted to the old CPF co-ops, which are covered by the only established dataset on British co-ops, and the few of these that remain have been analysed to death. One central aim of the research for this thesis has been to collect accounting data on some of the large number of new co-ops, and establish a dataset covering their performance which can subsequently be used by other researchers.

Accounting data has been collected to give as complete a coverage as possible of co-ops in the printing, clothing and wholefood sectors[1]. It is used in this chapter to analyse the comparative performance of co-ops in the different sectors, and also of co-ops and capitalist firms within each sector.

The analysis of Part I suggests that the commercial performance of co-ops will be poorer than that of capitalist firms, for two main reasons. Firstly, because co-ops tend to pursue objectives which aim to enhance the position of the workforce and labour generally, rather than intensifying their exploitation by capital. Such measures conflict with the process of accumulation which characterises capitalist industry; given that commercial activity is first and foremost about increasing profit, co-ops can be expected to fare less well. Much of this chapter will be devoted to an examination of whether or not this is in fact the case. Secondly, co-ops will tend to start off in a disadvantaged position compared to capitalist firms, given their shortages of skills and finance.

The measurement of co-ops' commercial performance is not straightforward. Conventional approaches are centered on capitalist conceptions of the objectives of commercial activity - that is, making a profit. This reflects the role of the capitalist firm in the accumulation process, which is different to that of a co-operative. The first part of the chapter explores some of the conceptual issues involved in the use of accounting measures in quantifying the

1 see Appendix 2

commercial performance of worker co-operatives, while the actual experience of co-ops in the three sectors is dealt within the second part.

ISSUES IN THE CHOICE OF PERFORMANCE MEASURES

Co-operative Performance

Attempts to measure the performance of co-ops reflect their contradictory position in a capitalist economy, and are fraught with difficulty. Firstly, co-ops are distinctly different to capitalist enterprises and, potentially at least, exist to advance the interests of workers rather than capital; secondly, they operate as 'commercial' enterprises - i.e. engaged in commodity production - in which case they are judged on capitalism's terms. This raises the question of whether they should be assessed in terms of their own objectives or in terms of how the economy judges them. Measurement of 'efficiency' for co-ops brings us face to face with major problems in that the concept of efficiency is related to the objectives of an enterprise, and to the objectives of economic activity; "the necessity of judging efficiency in relation to purpose"[2].

Most research has acknowledged that co-operatives do have a range of objectives. According to Thomas and Logan:[3]

> Self-managed enterprises .... have a multi-purpose objective function rather than a simple maximising income-per-worker objective. Various objectives have been explored, particularly in the context of researching the behaviour of Yugoslav enterprises: maximising income for the collective of workers; maximising the income per embodied unit of labour; maximising a range of objectives which include collective consumption and social objectives; or the combination of maximising pure surplus ['profit'] and a target increase of wages, are some of the objectives of a variety of theoretical models[4].

Performance measures based upon commercial performance face a fundamental problem in that many elements of co-op performance are not quantifiable in monetary terms. Although 'social' objectives can theoretically be included, this is limited to certain ones which can be quantified; it is difficult to see how a restructuring of the labour process can be quantified for inclusion. Even if the various objectives could be quantified there remains the problem

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2 Nove, 1978, p. 83.

3 Thomas & Logan, 1982, p. 97.

4 especially those of Horvat, 1967, Jan Vanek, 1972, Vanek, 1975, pp. 20-33 that different co-ops will have different objectives, and no overall 'objective function' for the co-op sector could be identified.

Any form of quantification arbitrarily elevates certain aspects of performance, those which can easily be quantified, over those that cannot. In a capitalist economy quantification essentially takes place on the basis of monetary valuations, and thus aspects of (say) production which have either actual or potential commodity status (they can be bought and sold) are elevated over social or non-commodity aspects.

In focusing on commercial performance, the approach adopted here accepts that the commodity aspects of co-op production will receive most attention. It can be argued that this merely reflects the overriding need to survive in a capitalist economy which dominates co-ops' activities. However, the objective is to analyse this performance in terms of all aspects of co-operative production, in later chapters. While this chapter primarily concentrates on one aspect of the outcome of co-op activity, later chapters examine the process by which this outcome is achieved.

Furthermore, there is very little information on the commercial performance of co-ops, indeed very little quantitative information of any kind exists on new British co-ops. The distinctive aim of this piece of research is to gather - for the first time - extensive data on the commercial performance of new British co-ops and interpret this in relation to a marxist theoretical analysis and available qualitative data, rather than accept commercial performance as the final objective.

The primary areas of analysis of commercial performance will be:

- the record of aggregate growth performance in terms of output; value added and investment;
- the generation of a surplus (value added) by co-ops
- distribution of the surplus to wages and accumulation

Firstly I examine the relevance to co-ops of conventional accounting frameworks for the measurement of commercial performance, leading to the development of a more suitable alternative.

AN ACCOUNTING PERSPECTIVE FOR CO-OPERATIVES

The role of profit

Any capitalist firm, like a co-operative, is engaged in a range of different activities. Amongst these it produces things, employs workers, pays wages, fires workers, buys and sells commodities, rents or owns buildings, and accumulates capital. But in measuring the performance of a capitalist firm all except one of these are ignored; a firm is not judged fundamentally by the number of workers it employs, or the level of wages it pays, but by its ability to make a profit; conventionally performance is assessed on the basis of profitability (return on capital) and related measures. This is not just a matter of arbitrary choice, but reflects the fact that the primary and overriding function of the capitalist firm is to make profits and accumulate capital. Profit is the life-blood of capitalism and it is through the accumulation of capital that the class structure and the essential nature of capitalism are preserved.

Measures of performance based on profit cannot provide an 'objective' assessment of performance, because they operate on the basis of criteria which are rooted in the maintenance of the existing economic and social structure. One of the functions of such measures is to legitimate the pursuit of profit as an activity, presenting it as a desirable, necessary activity upon which society's continued existence, growth and welfare depend. Profit maximisation is therefore seen as a commendable activity, socially responsible and necessary for everyone's benefit. In this way it reinforces, and is part of, capitalist ideology.

How is profit is presented in this way, being to everybody's benefit, rather than as a measure of the degree of exploitation of one class by another? It is achieved by a misleading representation of profit as an economic category. There are various different conceptions of profit within orthodox economic theory, but what they have in common is a false portrayal of the source of the value of commodities. Profit may be presented as a reward for entrepreneurship, as the price of capital or as the reward for abstinence (consumption forgone)[5]. All of these contribute to the conception of the role of profit in the economy as something 'owing' to capital, and therefore denying any rightful claim by labour to all or part of this surplus. They all conceal the fact that the source of profit is not capital at all; the source is the surplus value which is appropriated from labour by capital. Profit is not the

5 These are all effectively demolished by Fine, 1977; see also e.g. Howard, 1983.

result of a situation of equality between capital and labour, but the result of the "appropriation of the surplus product by one class through its monopolisation of the means of production and the system of wage exploitation"[6]. Thus there is a contrast between the neoclassical view, in which "profit is indicative not only of the firm's market viability but also its social efficiency in utilising society's resources", and the alternative perspective in which "the magnitude of [profit] is indicative of social, institutional and monopolistic power rather than social efficiency"[7].

The same applies to the whole set of accounting measures based around profit and the accounting discipline in general; they are not neutral, purely technical tools. "The accountancy profession is not free of value judgments; accounts are not just technical ways of measuring performance: they do represent certain ideologies"[8]. Tinker et al[9] identify accounting practices as deriving from marginalist economics, with an emphasis on 'individuals' (whether persons or corporations) and the 'objectivity' of market prices. Accountancy reflects the environment in which it exists, but it also forms part of that environment; it therefore helps to determine the nature of social formations, and to determine perspectives within those social formations. The role of profit in the capitalist economy determines that the presentation and use of accounts is centered on an enterprise's profitability, but the resulting form which accounts take helps to reinforce the role of profit and to influence the perspective within which profit is seen. Accounting forms and procedures represent the dominant capitalist ideology; in view of the role of co-ops, the existing accounting framework is not necessarily suitable, and the use of it may restrict the ability of co-ops to break out of a capitalist perspective.

Alternatives to profit for co-operatives

The use of profit-based measures of performance by co-ops is problematic, for three reasons. Firstly, the absence of the capital-labour relationship - at least at the enterprise level[10] - means that profit itself does not exist in a co-op. Secondly, profit-based measures of performance are specific to the capitalist economic structure, to which co-ops are opposed.

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6 Fine, 1977.
7 Tinker, 1980, p. 147.
8 Hird, 1983, p. 41.
9 Tinker et al, 1982, p. 188.
10 Taking perhaps a somewhat idealistic view that co-ops do not degenerate into a class of worker-owners employing wage labour - a major concern of the Webbs and of Fairclough (1986) (see chapter 1). Although this is a widespread practice elsewhere in Europe, it has by and large been avoided in Britain,

Thirdly, on a practical level, such measures are not particularly useful in assessing co-op performance, either to co-ops themselves, researchers, banks or support agencies. This is partly because the reported profit figure in a co-op depends on whatever decision co-op members make on the distribution of the 'surplus' between wages, bonuses and accumulation. Given that the whole of the surplus accrues to the membership, rather than just the wages payments made by capitalists, the division into 'profit' and wages/bonuses loses some of the economic significance and crucial role which it has in capitalist firms, and instead becomes an allocational decision between wages and investment in the means of production, although this is not to ignore the pressures to reinvest a certain amount, determined elsewhere by the process of accumulation and competition.

These points suggest that co-ops should avoid viewing profit from the standpoint of capital, and be wary of using capitalist constructions. The question arises of whether it is possible to develop alternatives to profit-based measures of performance which can be used by co-ops. In developing an alternative we must relate it to the actual position of co-ops in a capitalist economy; they reject the basis of capitalist production, but are continually compromised by their role as commodity-producing enterprises within such an economy. Therefore, co-op oriented measures of performance reject profitability but are also compromised by co-ops' present form of existence. The broad form of such measures can be derived from the contrast between the actual operation of a co-op and a capitalist firm; the latter is engaged in providing a return to capital, whilst the former attempts to provide a return to labour[11]. It would have several objectives:

- to provide a measure of performance which is more suited to the nature of co-ops than capitalist profit-based measures, and which will provide a more acceptable and useful method of measuring co-ops' commercial performance;

- to assist in moving co-ops and those associated with the co-op sector away from capitalist conceptions of performance, and provide co-ops themselves with a method of assessing performance which derived from their own starting point and which relates to co-ops' own class interests;

What would the development of such measures achieve? There are several arguments against it. Firstly, although the capital-labour relationship is abolished at the level of the

11 Although as Part I made clear this is not necessarily a monetary return; however this section is concerned with a monetary return to labour in the context of commercial performance.

enterprise, it remains at the level of the economy. Co-ops cannot wish this away and it remains a fundamental determinant of their activities, constantly pressurising them to act in a certain manner. More importantly, it is ultimately the judgment of the capitalist economy as to whether a co-op survives or collapses, and this judgment is based upon co-ops' ability to generate a surplus - which looks very much like profit. The surplus remaining after wages have been paid provides the source of capital for accumulation, and this both reflects and influences co-ops' competitive position. Therefore if the economy judges co-ops in terms of their ability to generate a 'profit', then perhaps commercial performance should be assessed in this light.

In practice co-ops do have some flexibility in terms of the level of surplus which they generate; the intensity of competitive market pressures does vary and will allow some co-ops to generate a higher than 'normal' or average surplus. For others, achieving a low surplus, survival can be achieved - for a time at least - by the acceptance of low wages or poorer conditions of work. The scope for such variations and the way in which these will be manifested in co-ops is sufficient to justify the use of performance measures specific to co-ops. The impact of the capitalist economy on co-ops is as much on the way in which they operate as on the outcome; it is the process of co-operative production which is pushed in a capitalist direction, but the outcome of the conflict between this and co-op objectives is something specific to co-ops.

Secondly, it is argued by Cutler, Hindess, Hirst and Hussain (CHHH)[12] that changes in the method of calculation - i.e. the particular ways in which the British accountancy profession and Companies Acts (company law) derive profits - would have a major impact on the nature of British capitalism. Could this be extended to suggest that a coop-specific method of calculation would actually change the relationship of co-ops to the economy?

The problem with the CHHH argument in the case of capitalist firms is that it does not address the economic basis of production, nor capital-labour relations, looking only at the superstructure. Changing the method of calculation does not change the fundamental nature of British capitalism; rather, it reflects changing material conditions[13]. Although there is a two-way relationship between accounting and capitalist structure, causality flows

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12 CHHH, 1978.

13 An example is the introduction of inflation accounting in the 1970s, reflecting the changing economic circumstances of that period (Bryer & Brignall, 1986).

primarily from the latter to the former. However, co-ops represent a limited change in the economic base, and thus a change in the superstructure can follow.

Ultimately the usefulness of alternative perspectives on performance depends on the extent to which co-ops are removed from the capitalist economy. Alternative measures of performance can follow economic changes but cannot bring them about. Intervention by local authorities has to a limited extent brought about some economic change, and co-ops are - in some cases - being promoted for reasons other than capital-oriented restructuring. To the extent that an economic environment has been created where co-ops have the flexibility to pursue other, non-capitalist objectives, then some other form of performance measurement is appropriate - some form of measuring 'social returns' rather than profit returns.

Value added

Measuring the commercial performance of co-ops from the perspective of labour must encompass three requirements:

- Labour, not capital, is the source of value
- In a co-op labour owns the means of production and the surplus accrues to labour
- To a capitalist labour appears as a cost, even though it is the source of value. In a co-op, capital appears as a cost, even though this is a result of capital's remaining hold over the means of production, through finance capital.

Value added, suitably defined, will fulfil this role; essentially this appears as the surplus or residual left after materials and overhead costs have been paid from co-ops' revenues. It does not depend upon the distribution between profits and wages.

There may appear to be a danger in the use of value added accounting. When, in the 1970s it became fashionable for companies to present value added accounts to their employees, this was widely criticised as a means by which management further manipulates the workforce[14]. Value added presents a "picture of a unity of interests in the financial performance of a given business organisation, whereas in fact there exists a basic conflict of interests"[15]. However, co-ops are an attempt to break away from the relationship between

14 Hird, 1983; Labour Research, 1978.
15 Burchell, Clubb and Hopwood, 1985, p. 17.

labour and capital which gives rise to this conflict (although other, different, conflicts may arise in the process). To the extent that co-ops do represent a co-operative effort by the workforce then perhaps value added can provide a suitable representation of performance.

Williams & Haslam[16] advocate the use of value added criteria in assessing investments in industry. This is claimed to be a better measure of wealth creation, from the perspective of labour; they consider that labour has the major interest in modern manufacturing industry. The limitation of this approach, however, is that it is essentially concerned only with distribution (i.e. distribution of the surplus between capital and labour) and cannot address the question of class relations in industry.

In a co-operative, value added records a meaningful quantity, that is, the surplus which remains from revenue once costs have been deducted[17]. If finance is treated as an input like any other, then its cost (interest) can be treated in the same way. Thus value added is the quantity which accrues to labour; labour then takes the decision as to the distribution of this surplus between current payments such as wages, bonuses etc., and retained earnings for investment. The important role of value added for co-operatives has been noted by Marris[18], who states that "Value added is the true contribution of the business to its worker members". Value added does appear to have more relevance to co-operatives than profit, and is additionally useful because the same measure can be derived for the performance of conventional companies, although with a different meaning.

Any measure based upon value added will be playing a very different role to one based on profit. For conventional enterprises performance can be encompassed by the one measure because of the role which profit plays in a capitalist economy - i.e. the rate of profit is a means by which capital increases the rate of accumulation through the allocation of means of production to more productive functions. Profitability can be used as the firm's judgment of performance because it is the economy's judgment of performance. A firm has other activities in addition to making a profit - it produces output and employs workers - but these are irrelevant in capital market, except insofar as they contribute to profit. They are not important aspects of performance in their own right.

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16 Williams, Haslam et al, 1985.

17 Conventionally a distinction is made between Gross and Net Value Added. The former is derived by deducting direct materials and overhead production costs (but not wages) from revenues, the latter by then deducting depreciation and interest. See appendix 7.

18 Marris, 1984, p. 19.

The rate of profit cannot be replaced with any single value-added based measure for co-operative performance, for two reasons. Firstly, value added does not have the particular role of profit in the economy at large. Secondly, there are a variety of objectives which characterise the conflict between co-ops and capitalism, which vary between co-operatives and between members, and so a variety of different measures would be used to assess different aspects of co-operative performance.

Ratio measures based on value added

In order to make comparisons between co-operatives, some form of rate of return is required. Customary accounting measures are centered on return on capital (the ratio of profit to net assets), with a variety of other ratios contributing to this. Analysis of contributory ratios can assist in a diagnosis of reasons for good and bad performance of a firm, and furthermore are useful for making comparisons between different firms[19]

It may be possible to develop a similar set of measures for co-operatives. Suitable diagnostic tests would enable the early identification of co-operatives likely to run into difficulties. Support and financing agencies - such as CDA's, ICOF and even a hypothetical investment bank for co-operatives[20] - could pick up on these early warning signals (as of course could the co-operative members themselves).

Moving from a diagnostic to an explanatory perspective, it should be possible to identify some of the factors which contribute to a successful co-operative. For instance, the effectiveness of particular support strategies could be assessed, such as offering evidence as to whether co-operatives assisted by grants or wage subsidies are more or less likely to succeed than those receiving 'soft' loans.

Such a set of measures of performance for co-operatives cannot necessarily be derived from conventional measures simply by substituting value added for profit wherever it occurs. For a capitalist company the ratio *profit:net assets* makes sense, as it measures the rate at which capital appropriates a return for itself. In the case of co-operatives the situation is different. While a ratio *value added:net assets* can be calculated it is meaningless once labour has been identified as the source of value.

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19 see e.g. Harper (1977) for a typical pyramid of ratios based on return to capital.
20 such as that proposed by the Labour Party (1985, p. 16).

Problems with measuring return to labour

The key problem faced is therefore one of deriving a measure of the rate of return to labour, rather than capital, with the return defined as value added rather than profit. But on what basis is the labour input to be calculated? The immediate question raised is whether it is *labour* or *labour power* referred to here. Ideally, co-op workers would be concerned with measuring the efficiency of their labour, but all available data relates to labour power.

The simplest approach is to use value added per worker, a measure which is easy to calculate but which suffers certain drawbacks. Firstly, labour input varies according to the length of the working week or year (although account of this could be taken if sufficient data were available). More importantly, it neglects differences in the skill composition of the workforce, and in the level of technology employed. Value added per head will be higher if a given output is produced by a small number of skilled workers rather than a large number of unskilled workers, without implying any difference in 'efficiency'. A co-operative which 'undervalues' its skilled workers will demonstrate an artificially high value added per head in the same way that a firm with undervalued assets will demonstrate a high rate of profit. Similarly, a co-operative with more capital intensive technology will have higher value added per head even if there is a less capital intensive option with similar levels of skills and profitability.

These points will certainly be less important in making comparisons between co-ops in similar activities, where skills and technology may not vary a great deal between co-ops. However, effective and useful comparisons across co-ops in different sectors and with different technologies requires some alternative method of measurement of labour.

The problem of taking account of skill differences is one of measuring non-homogeneous labour in a way that will enable aggregation. An analogous problem, that of measuring the rate of profit on physically different types of capital, is solved - in practice if not in theory - by the monetary valuation of different capitals (even if such valuations are arguably inaccurate particularly during periods of inflation). For labour of different skills there is no simple equivalent.

One possible solution is to measure labour by wages/salaries paid. On the (somewhat tenuous) assumption that wage differentials reflect relative skills, the total wage bill would therefore reflect the total skills which the co-operative has. This leads to a ratio such as *value added:total wages*. A major difficulty with this measure is the relationship between skills and wages. It could be argued that in the economy in general wage differentials reflect skill structures, but this is unlikely to be true in co-operatives. Many adopt a policy of narrow or no wage differentials[21], whatever the workers' skills. Co-operatives are frequently forced to pay low wages as a result of their peripheral position in the economy, in common with some other small businesses. But the extent to which low wages are necessary varies from co-op to co-op, and so the wage structure in an individual co-op cannot necessarily be said to reflect the skills of its workers. Furthermore, if the ratio *value added:total wages* were adopted as a measure of productivity, a co-op would apparently improve its performance by reducing wages, which from the perspective of labour is clearly incorrect and illogical.

An alternative method of using wages to measure skill differences would be to use an external scale of differentials - e.g. union rates or national wage levels for the relevant skills. However, this would require data on the physical skill structure of each co-operative and on external wage rates. There is a clear trade-off here between simplicity and theoretical rigour.

Generation of value added

Following the above, I have adopted value added per worker as the primary indicator of the commercial or commodity productivity of workers co-ops; the higher the figure the more productive co-ops are at generating a monetary surplus from production, and over which they have control. The distribution of this surplus will be examined in the next section; in this section I examine which aspects of production contribute to changes in the surplus.

Value added per worker can be increased by any of the following changes, or a combination of them:

- Workers produce more output with the same stock of means of production; this could be because the pace of work is increased; the working day lengthened (analogous to increases in absolute surplus value in capitalist firms); workers may become more skilled (especially if there is an element of 'learning by doing' in co-ops which start off with skill shortages); or the general conflict between capitalist and co-operative methods of

21 *see chapter 5.*

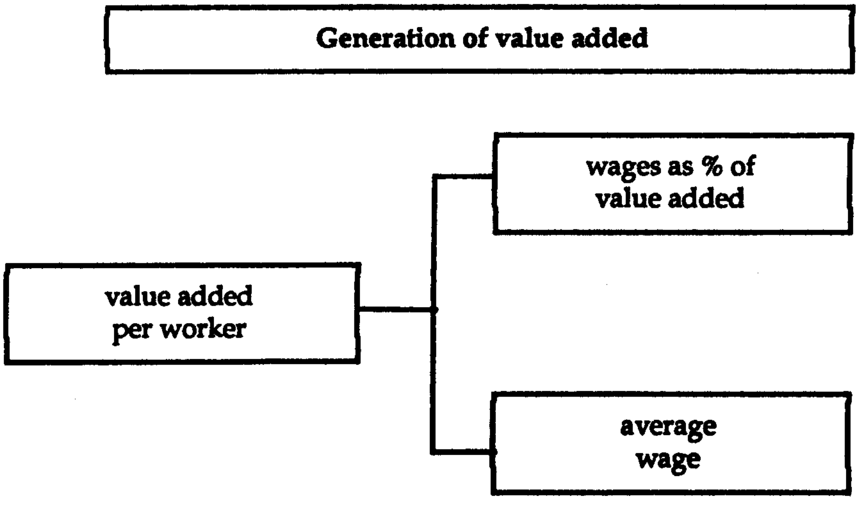
production may be increasingly resolved in the direction of capitalist organisation - for instance if a more detailed or hierarchical division of labour is adopted.

- The intensity, skill content and organisation of work can remain constant, but the stock of means of production available to each worker may be increased.

- Relative price changes affecting a co-op's inputs or outputs.

In the first case accounting data will reveal that the ratio of *value added to means of production* (VA/MP) will increase, because value added rises with a fixed stock of means of production. One way of measuring this stock is by the balance sheet value of fixed assets; although this is not entirely satisfactory, it is the best method available. In the second case the ratio *means of production per worker* (MP/H) will increase. By examining the course which these ratios have taken in practice for co-ops we should therefore be able to isolate the source of changes in value added.

Measurement of the stock of means of production presents problems for a variety of reasons. Firstly, a monetary valuation is not necessarily an accurate representation of the physical stock of means of production in use. Secondly, even if monetary valuations are used, none of the quantities fixed assets, total assets, or net assets represent the appropriate quantity of buildings, plant and equipment, and stocks in use. I have adopted fixed assets as a proxy for means of production, although these qualifications apply and any results must be interpreted in this light.



The contribution of the two ratios can be represented as in the figure above. They go some way towards solving the problems mentioned above with value added per head, that of taking account of different levels of technology. Examining the ratio MP/H in addition to VA/H gives some indication of the different intensities of means of production used by co-ops.

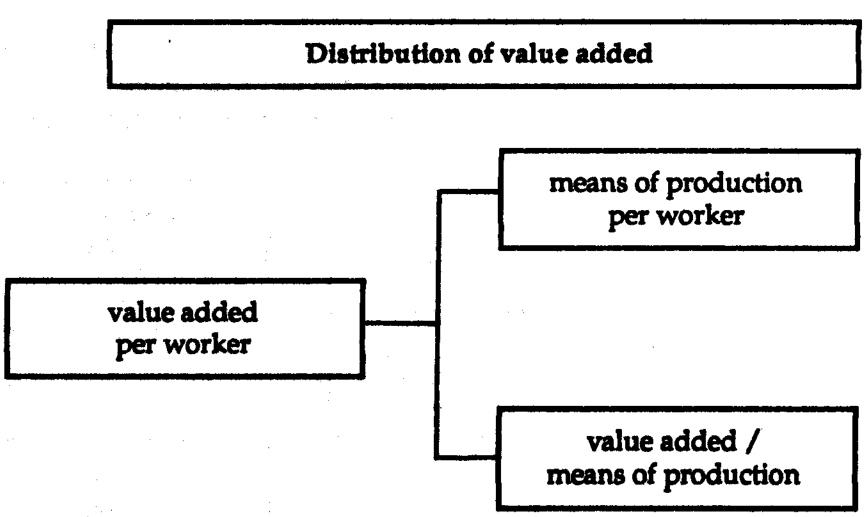
Distribution of value added

A second set of ratios can assist in analysing the distribution of co-ops' surplus; essentially this can be divided between wages (including bonuses); accumulation for investment in means of production; or allocation to social uses outside of the co-op[22] (capital's claims through interest and rent have already been taken account of in reaching net value added). In practice British co-ops rarely allocate their surplus to anything other than wages or reserves, and so there are two crucial aspects of surplus distribution:

- the level of wages paid; are these lower than wages in comparable capitalist firms or union rates, and what is their absolute level;

- the distribution between wages and accumulation, as the extent of the latter is crucial for co-ops ability to invest in means of production.

These are revealed by the two ratios *wages per worker* (W/H) and *value added:wages* (VA/W). As in the previous section, the contribution of the two ratios can be illustrated as follows:



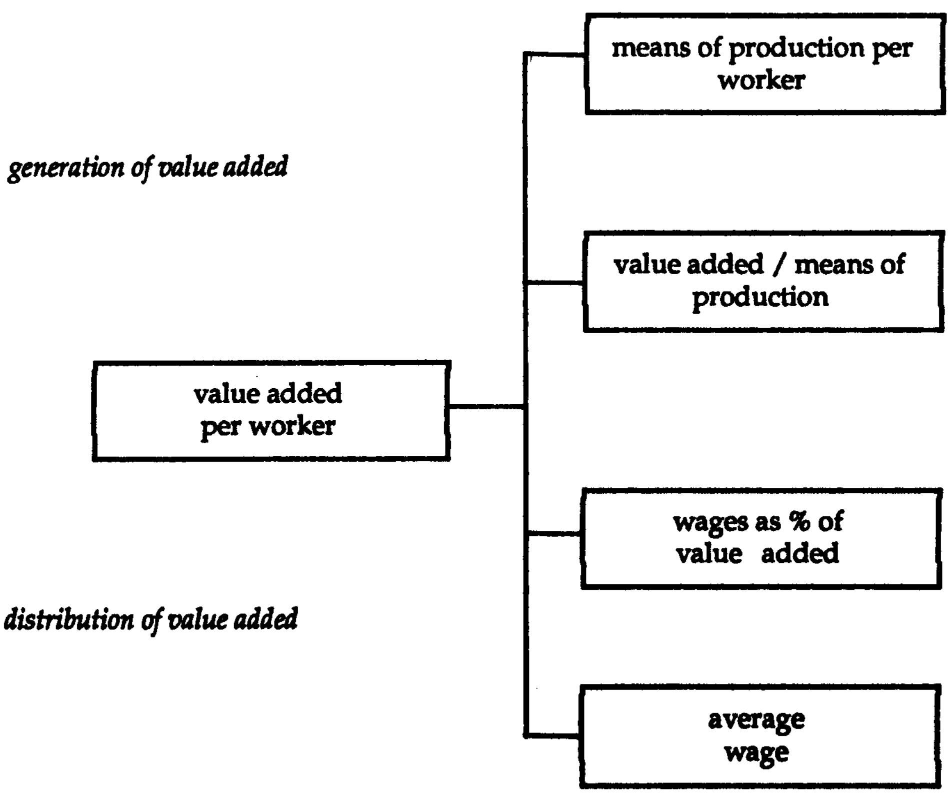
22 *e.g Mondragon co-ops allocate a minimum of 10% of the surplus to a Social Fund; British CPF co-ops typically have one or more of social, welfare or educational funds*

In practice it is easier to invert the second ratio, to become W/VA, as it makes more sense to think of 'wages as a percentage of value added' rather than the reverse. However this does not affect the principle of the ratios. This ratio also fulfills a direct function, as a measure of the distribution of surplus between immediate renumeration and reinvestment or other non-wage objectives. If the ratio is greater than one over a prolonged period a need is indicated for some form of external subsidy if the co-operative is to continue in operation. It also indicates the extent to which co-ops are accumulating, and thus links with the generation of surplus (through increasing quantities of means of production) and with the previous chapter's findings regarding the provision of finance through internal reserves.

Pyramid of accounting ratios for co-operatives

Combining the two sets of ratios developed above, we now have a simple pyramid of ratios based around a return to labour (albeit through monetary valuations in the market) rather than return on capital.

Accounting pyramid for co-operatives



These measures taken together can provide a broad picture of commercial performance, and will be used later in the chapter in an analysis of the actual performance of co-ops to date.

Mondragon - Index of value added

Attempts have also been made to develop an accounting framework specifically for co-ops at Mondragon. The financial and planning aspects of co-operation are administered by the Caja Laboral Popular (CLP), whose research department has developed measures of co-operative performance[23]. The most interesting of these is an Index of Value Added (IVA), which aims to record overall changes in productivity levels. It is defined as follows:

$$IVA = GVA / (H + C/W)$$

(GVA=gross value added; H=no. of workers; C=annual cost of capital; W=annual wage bill)

The denominator is therefore a composite number comprising the annual cost of capital divided by the average wage and the number of workers. The contribution of capital is thus measured in terms of equivalent 'labour units', and the ratio computes the return to capital and labour combined. In this it is something of a halfway house between a return to capital and a return to labour. This measure does treat both capital and labour as factors of production, but turns the conventional approach around by measuring capital (average annual cost) in terms of labour units.

The IVA does take account of different capital resources in different co-operatives, but it still fails to allow for differences in workers' skills. This aids comparability between co-ops with different levels of technology. In making comparisons between co-ops and capitalist firms in the UK the problem of low wages in co-operatives reduces the usefulness of comparability. However, Thomas and Logan[24] report that the problem identified above, of wages not reflecting skills because of reduced differentials or low wages all round, does not apply. In Mondragon the level of earnings is linked to that of similar branches of economic activity, and so there is no downward bias as a result of using co-operative earnings. The same authors report, however, that the Mondragon co-operatives tend to invest heavily in education and training and so their workforces tend to be more highly skilled than those in

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23 *Thomas & Logan, 1981, p. 107.*

24 *ibid., p. 108.*

comparable firms. Thus co-operative performance would tend to be overestimated by this measure, because of the undervaluing of the skilled labour input into the co-operatives.

COMMERCIAL PERFORMANCE OF BRITISH CO-OPS

Now that a specific framework for analysing the commercial performance of worker co-ops has been established, it is possible to examine the experience of British co-ops in the three chosen sectors since the mid-1970s, when their recent expansion commenced. The general issues addressed relate to the overall performance of co-operatives as competitive, commodity producing enterprises, compared to that of capitalist firms, changes in this performance over time; and the extent to which co-ops appear to be involved in the same accumulation process as capitalist firms.

More specifically the analysis examines:

- the overall growth in output of the three co-op sectors studied, and of individual co-ops;
- the level of productivity (in terms of commodity production) in co-ops;
- those aspects of co-op production generating changes in productivity, and
- distribution of the product generated, and resolution of the tension between wages and accumulation.
- the relationship between co-ops absolute and comparative position to capitalist firms, and their ability to accumulate.

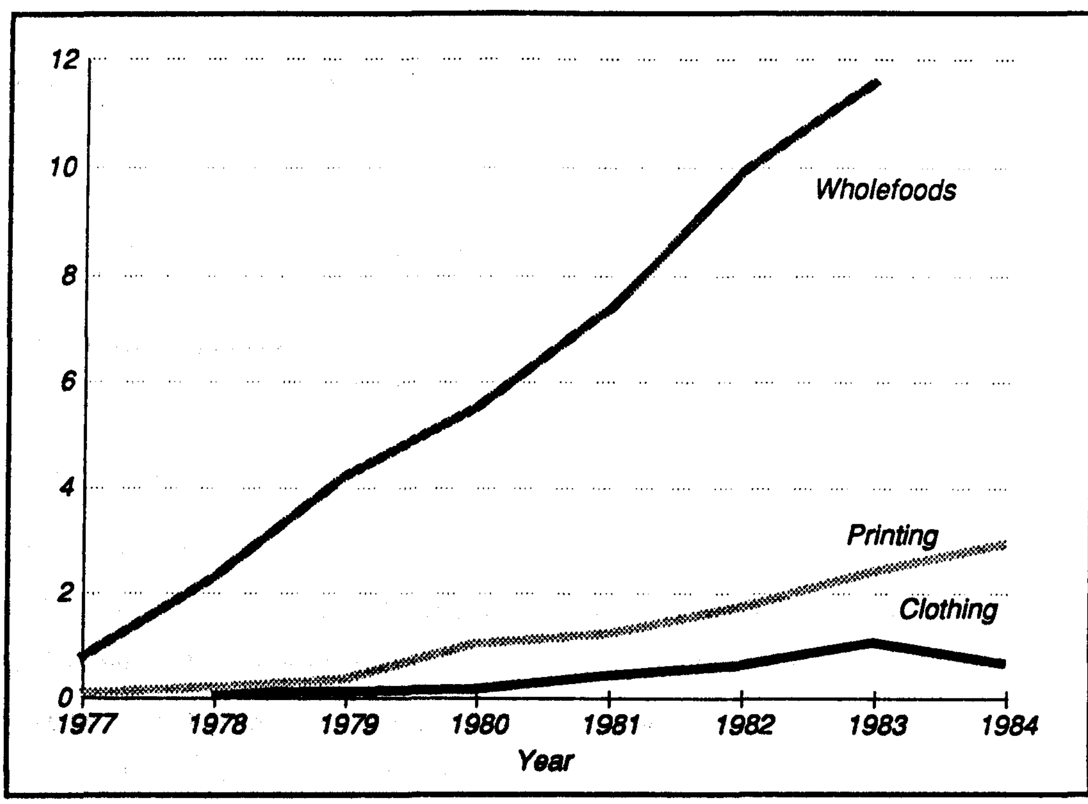
These results can be analysed in the context of the theory developed earlier to evaluate further the role of co-ops in the process of economic restructuring. A large element of this section will be descriptive, concentrating on the outcome of co-ops' commercial performance; the bulk of analysis and explanation takes place in the subsequent chapters on the individual co-op sectors.

The rapid expansion of the British worker co-op sector has been highlighted in chapter 5, where the increase in the formation rate and the number of co-ops in operation was analysed in some detail. One of the conclusions of that chapter was that economic conditions since the late 1970s, and particularly during the early 1980s, had been particularly favourable to the *formation* of new co-ops, but that the same conditions were not necessarily suited to the *survival* of those co-ops; the wide variation in survival rates between different co-op sectors suggested that more analysis of the role of co-ops in particular economic sectors was needed to evaluate the role of specific co-ops beyond their general position in an economy undergoing major restructuring. This analysis is done in chapters 8, 9 & 10. In this section I consider how co-ops commercial performance has developed in the light of their relationship with capitalist firms in these sectors.

Growth in output

The first aspect of commercial performance considered is the overall output of co-ops. This has been growing, both from new co-ops continuously being formed, and the expansion of existing ones.

Figure. 7.1 Total real co-op output by sector
(£million, 1985 prices)



The increasing level of overall activity in co-ops in the three sectors is shown in Table 7.1 and illustrated in Figure 7.1. This shows that the wholefoods sector has by far the highest output, and has reached this point by steady growth over a relatively long period[25]. The growth in printing, and especially clothing, has been more recent; it remains to be seen whether the growth in these two sectors can be maintained over a prolonged period, or is just due to their more recent establishment.

Table 7.1 Co-op output *(£'000, 1985 prices)*

	Total sector output			*Average output per co-op*		
Year	C	P	W	C	P	W
1977	..	40.6	713.5	..	20.1	117.8
1978	58.0	158.4	2240.4	57.5	39.2	158.5
1979	88.3	312.9	4180.6	87.4	62.0	172.6
1980	131.4	683.7	5457.2	32.6	67.7	168.9
1981	388.3	1181.0	7313.9	64.1	78.0	185.8
1982	583.8	1693.9	9889.9	72.3	88.3	233.3
1983	1017.0	2370.9	11570.7	100.7	117.4	266.6
1984	621.9	2893.9	11235.9	88.0	150.9	383.9

Note: C=clothing; P=printing; W=wholefoods

Source: own data based on research at Companies House and the Registry of Friendly Societies

Clearly a large part of this growth is due to the rapid increase in the number of co-operatives over the decade; chapter 5 showed that the number of co-ops overall increased from 30 in 1975 to around 750 by 1985, and similar growth applied in these three sectors. However, individual co-ops have also demonstrated a remarkable capacity for growth[26]; Table 7.1 and Figure 7.2a show growth in average co-op output.

Although the wholefood sector has by far the highest number of co-ops of all the sectors studied, it also has the highest average output, while average output in printing is marginally higher than that in clothing (see Figure 7.2a). A striking result is that the rate of growth in average real output has been very similar in wholefoods and printing; Figure 7.2b shows growth in average output expressed as an index (1980=100) and illustrates the almost identical movement of the two sectors over the period. Although the clothing co-op growth

25 All monetary quantities are shown in real terms, in 1985 prices, except for wages which are in nominal (current price) terms. Real values are the best indicator of the level of activity by co-ops, as the effects of inflation are excluded
26 Selected examples will be examined in the respective industry chapters

rate has been higher over the period 1980-84, the usefulness of this result is qualified by the small number of co-ops for which data is available, and the extreme sensitivity of the result to the time period chosen[27]. The significance of the printing/wholefood result is that, for output at least, it suggests that similar processes may have been at work in both co-op sectors in terms of their relationship to the economy and the co-op sector as a whole.

Although these results are impressive, the time period is too short and co-ops too young for a comparison to be made with the growth of capitalist firms in the respective sectors; it is to be expected that newly-formed enterprises would demonstrate faster growth than longer-established ones. Despite this rapid growth, prospects for continued co-op growth are uncertain; the declining formation rate of new co-ops indicates that at least this aspect of growth is diminishing.

Commodity productivity[28]

Moving from the absolute amount of output produced by co-ops, we can begin to analyse how that output is produced; this also enables some comparisons to be made with the performance of capitalist firms. Earlier analysis suggested that co-ops will tend to produce less commodity output than capitalist firms; firstly because many objectives will conflict with commercial productivity, and secondly because they suffer from a shortage of finance which restricts access to the means of production.

In this section I use ratio analysis to investigate the commodity productivity of co-ops, based on the accounting ratios developed earlier in this chapter. Moving from overall output, we can examine the output per worker produced by co-ops. This enables comparisons to be made relatively easily between co-ops and capitalist firms. Data on *gross output per worker* (GO/H) is presented in Table 7.2 below and illustrated in Figure 7.3a. In general the pattern follows fairly closely that for average co-op output.

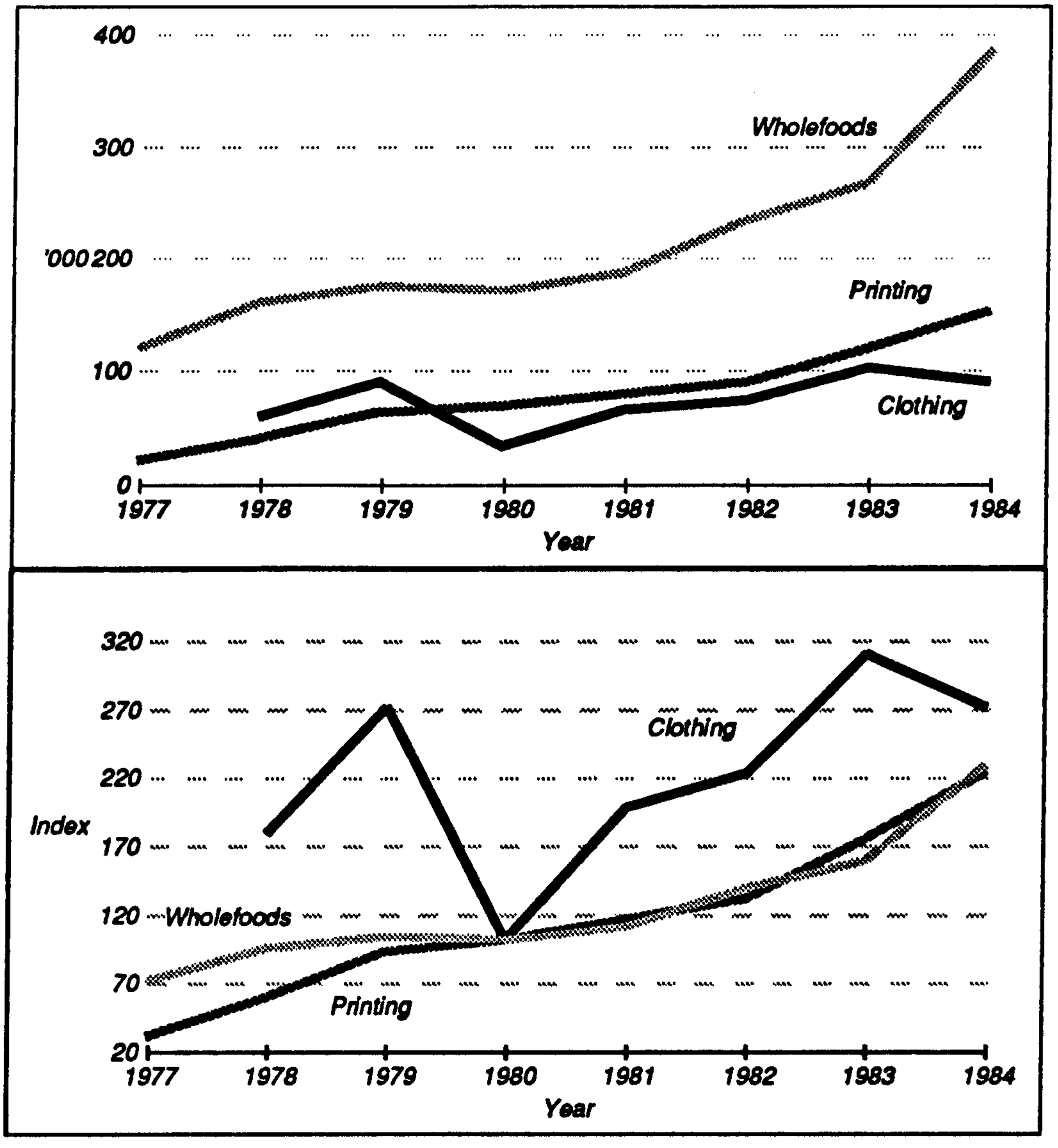
However the absolute levels of output per worker in each co-op sector are not especially interesting; they reflect the characteristics of the industry more than anything else (although later we will see that it is useful for individual co-ops). Of more interest is the change over

27 This qualification applies to all subsequent results concerning the clothing co-op sector.

28 I have used the term 'commodity productivity' rather than just 'productivity' to emphasise that the production of commodities is but one aspect of co-operative activity and that performance must be interpreted in the light of this.

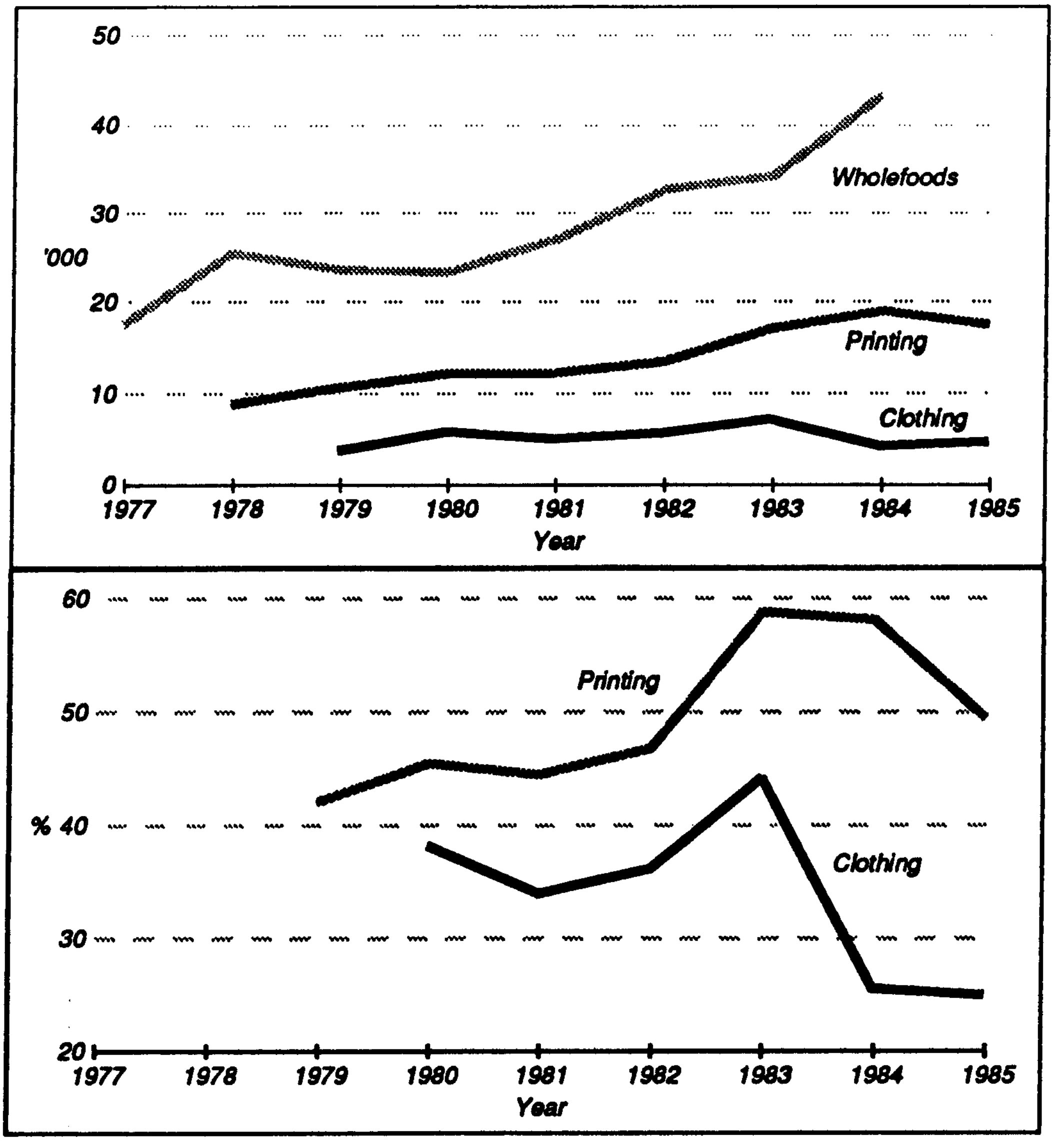
7.2a Average co-op output *(£million, 1985 prices)*

7.2b Index of average co-op output *(1980=100)*



7.3a Average co-op output per head *(£'000, 1985 prices)*

7.3b Average co-op output per head as % of industry average



time, and the position relative to the industry average[29] - i.e. how co-ops are performing relative to capitalist firms.

The data shows that output per head has increased over the period, as co-ops have expanded - with this expansion more than compensating for the small size of new co-ops being formed. There are differences between the sectors: the increase has been most dramatic in wholefoods (which later investigation will show mostly to be in the wholesale sub-sector rather than retail), steady in printing, but slow and erratic in clothing. This last result reflects the instability of the clothing sector in general, and the small number of co-ops for which data is available (in part reflecting the short life of many clothing firms and co-ops), and is found throughout this analysis.

Relating these figures to those for comparable capitalist firms shows that on average co-ops are much smaller, although in printing the relative size and output per worker of co-ops is increasing. In 1980, the turnover per head of printing co-ops was 45% of that for comparable capitalist firms and in clothing 38%; in 1984 the respective figures were 58% and 25%. Figure 7.3b shows GO/H in co-ops by sector as a proportion of the capitalist figure.

Table 7.2 Output per worker in co-ops *(£'000, 1985 prices)*

	Output per worker			*as % of industry average*		
Year	*C*	*P*	*W*	*C*	*P*	*W*
1977	..	..	17.2	..	..	..
1978	..	8.6	25.2	..	..	..
1979	3.5	10.4	23.3	..	41.8	..
1980	5.6	11.9	23.0	38.0	45.2	..
1981	4.8	12.0	26.7	33.8	44.2	..
1982	5.4	13.2	32.4	36.0	46.5	..
1983	6.9	16.8	33.9	43.9	58.6	..
1984	4.0	18.7	43.1	25.3	57.9	..
1985	4.4	17.2	..	24.7	49.3	..

Source: as for Table 7.1

29 *Wherever possible industry figures relate to small firms (less than 100 workers). See definitions of variables in appendix # for exact details of sources etc.*

Value added

One of the main limitations with using information on gross output is that it varies considerably according to the nature of different industrial sectors; for instance it is high in the wholefood sector, but this is mostly accounted for by the nature of the industry - purchases of goods for resale rather than transformation of the goods. By contrast, clothing and printing represent manufacturing processes rather than distribution, and embody a different relationship between material inputs, labour, and output. In CMT clothing manufacture, there is little or no expenditure on direct inputs, only overheads, and so output per worker comprises largely labour expended. Thus the variation in output per worker may merely be reflecting the nature of these different industries.

Of more interest and importance is the prpportion of output over which co-op workers have some control. Value added is a measure of this surplus, given the prevailing market prices (see above). *Value added per worker* is the most important single measure of commercial performance for co-operatives, and varies much less than output per worker; in fact the relationship between output and value added per worker is a useful way of distinguishing different productive activities. Results are shown in Table 7.3 and Figures 7.4a & 7.4b.

Table 7.3 Value added per worker *(£'000, 1985 prices)*

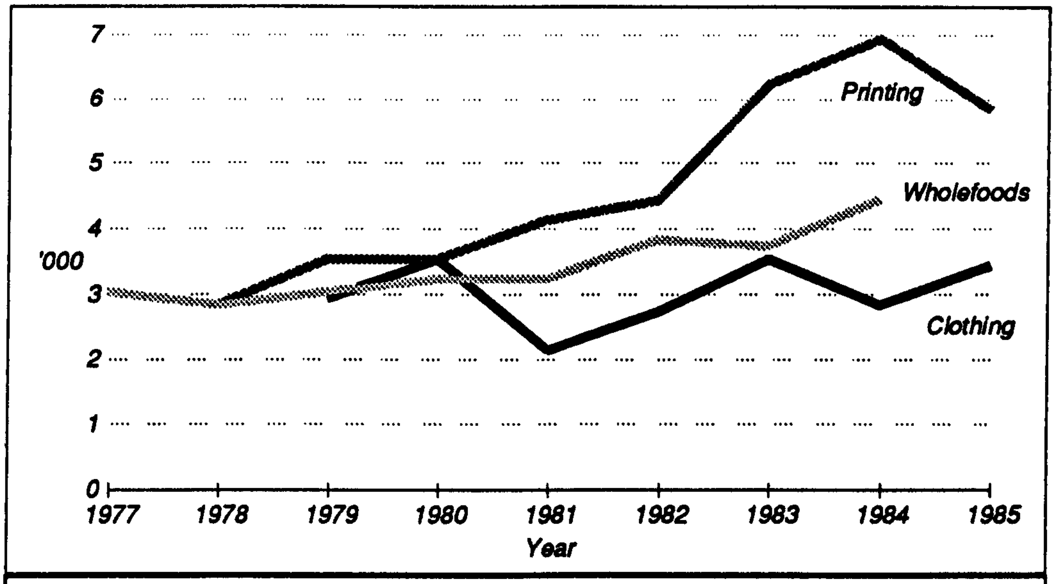
	Net value added per worker (co-ops)			*Gross VA per worker (co-ops) as % of industry average*		
Year	C	*P*	W	C	*P*	W
1977	..	..	3064			..
1978	..	2858	2910			..
1979	2954	3621	3037		33.1	..
1980	3561	3614	3233	63.8	32.5	..
1981	2140	4143	3297	39.5	34.8	..
1982	2822	4515	3926	50.3	38.4	..
1983	3533	6268	3747	57.2	51.8	..
1984	2868	7087	4507	44.1	52.8	..
1985	3519	5853	..	50.6	42.0	..

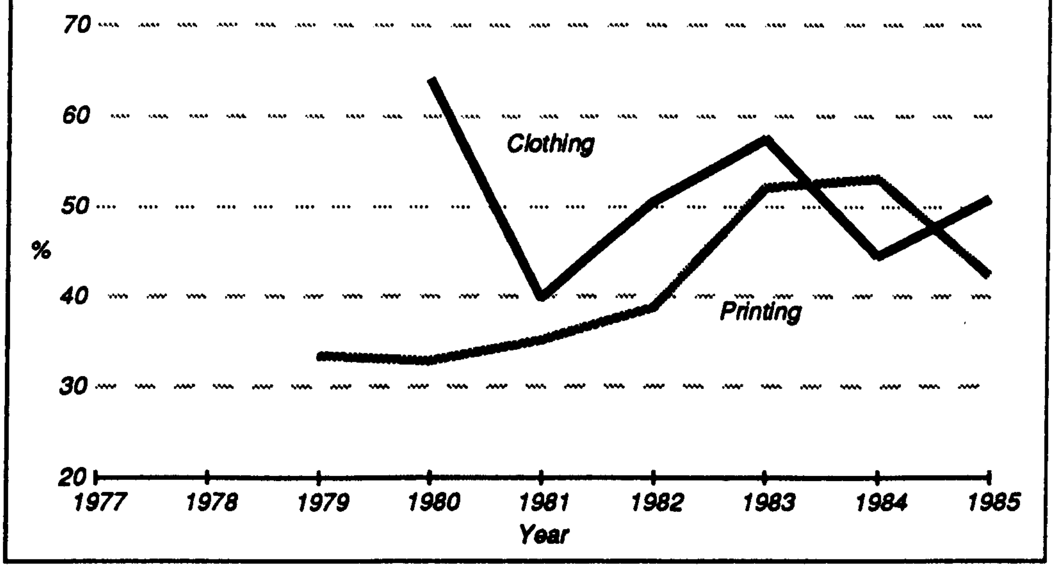
Note: see Appendix 7 for distinction between net and gross value added)

Source: as for table 7.1

7.4a Net value added per worker *(£'000)*

7.4b Gross value added as% of industry average





In printing, average real net value added per worker (NVAPH) has been steadily increasing, from £3,500 in 1979 to £6,900 in 1984. Gross value added per worker in the printing industry rose over the same period, from £12,800 to £15,800 (at 1985 prices). The relative position of printing co-ops has improved steadily, from 33% of the industry average in 1979 to 53% by 1984[30]. Despite this improvement, value added in co-ops remains much lower than in the industry as a whole. The low figure has two related components: a low output per worker (see above) and costs taking up a higher proportion of output. The latter has been around 57-64%, decreasing over 1979-1985, but compares with a steady proportion of around 50% in the industry. The two elements are related because overheads (fixed costs) are likely to make up a greater proportion of a lower output.

In clothing, value added per worker has increased marginally over the period, but has varied from year to year rather than showing a steady trend. As with printing, co-ops generate about half of the industry average GVAPH, also on a much lower level of output. Although the two co-op sectors have similar levels relative to the appropriate industry figures, in absolute terms value added per worker in clothing is about half that in printing by the mid-1980s.

In the wholefood distribution sector the overall level of real value added per worker has been increasing steadily, from £3,000 in 1979 to £4,400 in 1984 (Table 7.3). However there are substantial differences between the two sub-sectors, wholesaling and retailing. Thus in the wholesale sub-sector GVAPH increased from £6,000 in 1979 to £7,400 in 1984 (in 1985 prices); the respective figures for retailing were £2,400 and £3,700.

An interesting observation from Figure 7.4a is that in the late 1970s VA/H in all 3 sectors was around the same level, but since then has varied widely. Clothing has varied erratically around the original figure of £2,900; printing has risen rapidly to become by far the highest in real terms; and wholefoods has risen slowly. In the next section the source of these differences will be located in the different mechanisms for increasing value added in co-ops.

It is also useful to look at *value added as a proportion of output*; while this basically characterises the sector under consideration changes over time within sectors are revealing, as is a comparison with that achieved by capitalist firms (see Table 7.4). Since 1980, this has

30 Comparisons between co-ops and industry figures are on the basis of Gross Value Added, rather than Net Value Added (see Appendix 7); in fact the difference between gross and net value added for co-ops is very small.

been rising in printing co-ops, falling in wholefood co-ops, and moving erratically in clothing co-ops. In printing, output per worker is closer to the industry average than is value added per worker; thus printing co-ops generated a *lower* proportion of output as value added than capitalist firms. This suggests that overheads make up a higher proportion of costs and output in co-ops - which is not surprising as overheads (fixed costs) by definition do not vary much with output; thus co-ops probably bear similar overheads but on a lower output. Clothing co-ops show the opposite, with value added representing a higher proportion of output than the industry, reflecting the concentration of clothing co-ops in CMT.

Table 7.4 Value added as % of outptut

Year	C	P	W	C	P	W
1978	..	37	18	..	..	
1979	85	38	12	..	48	
1980	67	36	14	40	50	
1981	47	39	15	40	50	
1982	56	38	14	40	46	
1983	53	41	13	41	47	
1984	73	45	12	42	49	
1985	81	41	12	40	47	

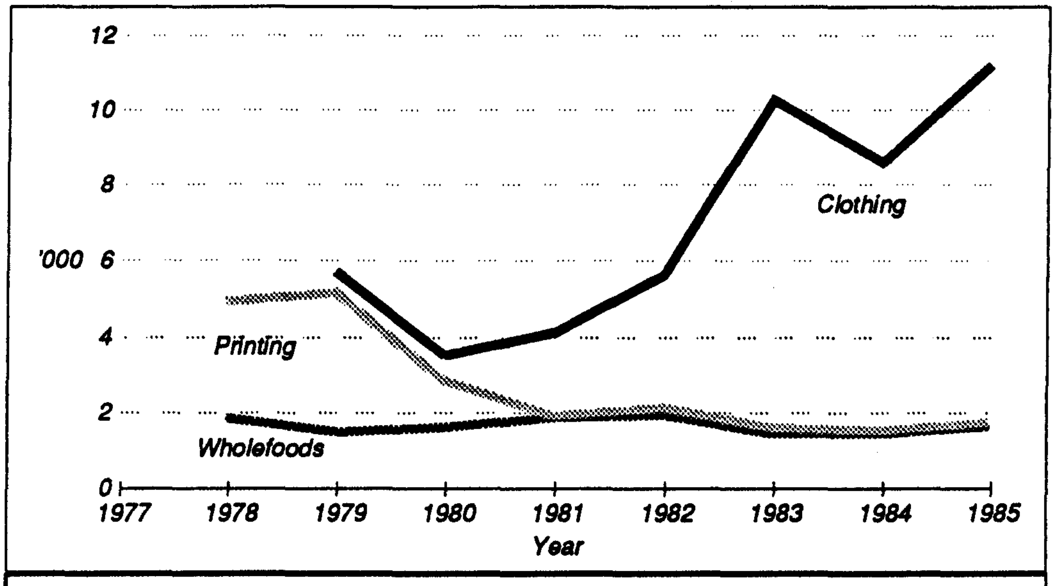
Source: as for Table 7.1

Generation of value added

In this section I apply the ratios developed above - to analyse the generation of co-ops' surplus - to the three co-op sectors. The source of changes in the main commodity productivity measure - *value added per worker* (VAPH) - is analysed by means of the contributory measures *value added/means of production* (VA/MP) and *means of production per worker* (MP/H); these trace changes in the level of value added generated with a given stock of means of production, as opposed to changes in the level of MP. Movements in these are given in Figure 7.5 and Table 7.5.

7.5a Fixed assets per head *(£'000, 1985 prices)*

7.5b Value added/fixed assets



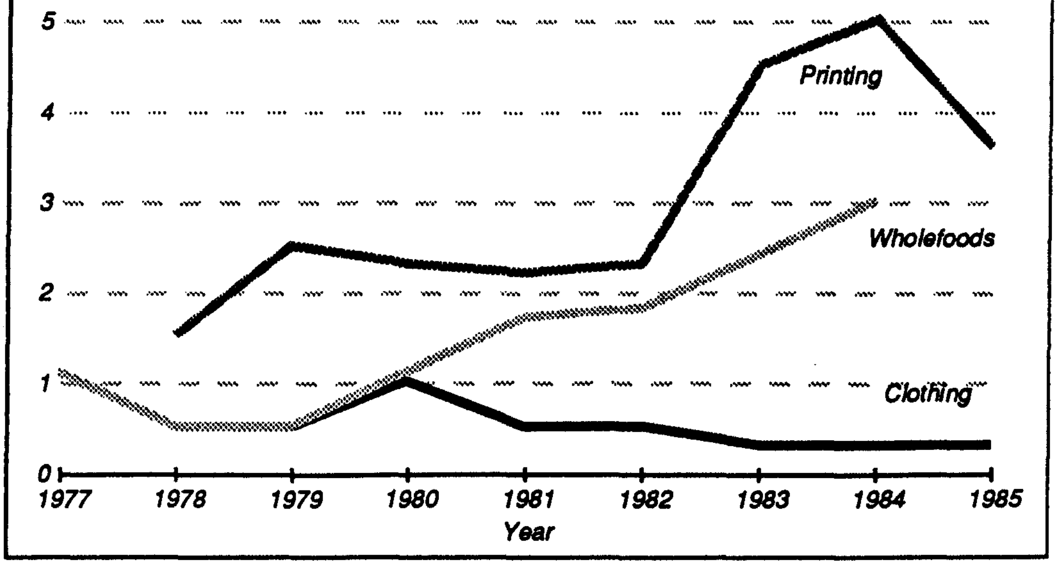


Table 7.5 Means of production (fixed assets)

	Fixed assets per worker			*Value added/fixed assets*		
Year	*C*	*P*	*W*	*C*	*P*	*W*
1977	..	..	1182	..	..	..
1978	..	1608	600	..	1.78	4.85
1979	208	2568	597	5.64	1.41	5.09
1980	410	2348	1165	3.45	1.54	2.78
1981	210	2299	1797	4.05	1.80	1.84
1982	201	2414	1895	5.56	1.87	2.07
1983	137	4561	2444	10.20	1.37	1.53
1984	133	5093	3124	8.53	1.38	1.44
1985	125	3698	1069	11.14	1.58	1.67

Source: as for Table 7.1

Figure 7.5a shows changes in the stock of (means of production) fixed assets per worker, and clearly there have been different trends at work within each sector. In clothing the stock of MP/H has been declining steadily since 1980, whilst at the same time the productivity of workers with these machines has been increasing. The clothing industry (at least in CMT) is characterised by a relatively unchanging technology and labour intensive operation (see chapter 9). This is supported by the data for clothing co-ops; the stock of MP/H is very low (in 1984 it was £360 at 1985 prices), much lower than the other sectors; surprisingly even lower than the distribution (as opposed to production) sector, wholefoods. The steadily declining level of MP measured indicates that assets are being depreciated but there is little reinvestment. However, clothing machinery tends to have a long life and with adequate repair and maintenance can last much longer than the usual 10 year depreciation period; nominally depreciated fixed assets in the balance sheet does not necessarily mean that the physical stock of fixed assets is diminishing. Although MP/H in monetary terms is decreasing, it may not be so in physical terms, and so the monetary trend may be misleading. It seems unlikely that there is actually decapitalisation in physical terms in the clothing co-op sector.

In printing, the stock of MP per worker appears to have increased dramatically, particularly in 1982/3. This is almost certainly an accurate reflection of events, as it is known that in particular some of the larger London printing co-ops undertook major investment and expansion programmes over this period, using both public sector and private sector finance (see chapters 6 and 8). Wholefood co-ops have shown a steady rise in the stock of means of production, although it has not been as fast in printing - but given the labour-intensive nature of production in the sector the increase is significant.

The ratio of VA/MP is also shown in Table 7.5 and Figure 5.5b, and gives an indication of how efficiently co-ops are using their stock of fixed assets. This shows a striking contrast between clothing and the other two sectors; it appears to show dramatic increases, but this partly reflects the artificially reducing level of fixed assets. There is probably some increase in productive efficiency, but it is unlikely to be as dramatic as the figures suggest. In printing and wholefoods the level of VA/MP has been constant since 1980, and at the same level in each sector. The constancy of this figure is very surprising; it would be expected that efficiency would increase as co-op workers became more experienced through on-the-job training, especially if there is an initial lack of skills, but which could be acquired over time. Thus increasing value added per worker appears to follow investment in more advanced machinery etc., rather than greater efficiency. This is strong supporting evidence for the problem of initial underfinancing explored in the previous chapter, and shows the pressures on co-ops to accumulate from their limited capacity to generate a surplus.

Distribution of value added

One of the widely perceived characteristics of co-ops is that workers tend to end up working for low wages, frequently referred to as 'self-exploitation'. This is a central reason for opposition to co-ops within the trade union movement; they are seen as undermining the hard-won gains of workers elsewhere, providing unfair competition to established firms on the basis of low wages. While there is evidence that wages for co-op workers are lower than those in comparable capitalist firms, there is no reason to believe that this by choice; indeed it appears that co-ops in general pay as high a level of wages as can be afforded - if not *more* than can be afforded.

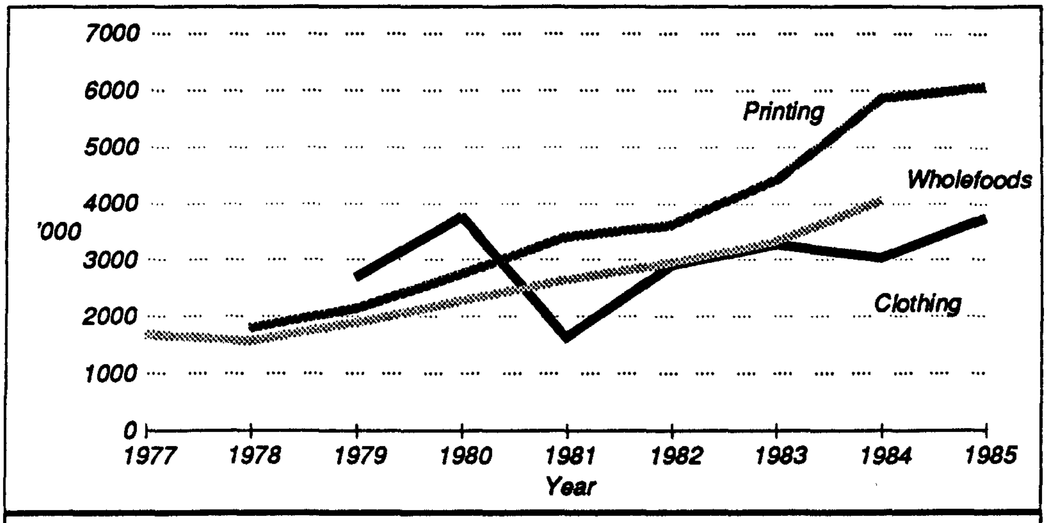
Average wages paid in co-ops in the three sectors are shown in Table 7.6a[31]. Amongst capitalist firms in these sectors, both mens' and womens' wages are highest in printing, followed by wholesale food distribution, retail food distribution, and finally clothing manufacture (see Table 5.11, chapter 5). Pay in clothing and retail food distribution is relatively low; only in printing are men's wages higher than the average for all industries.

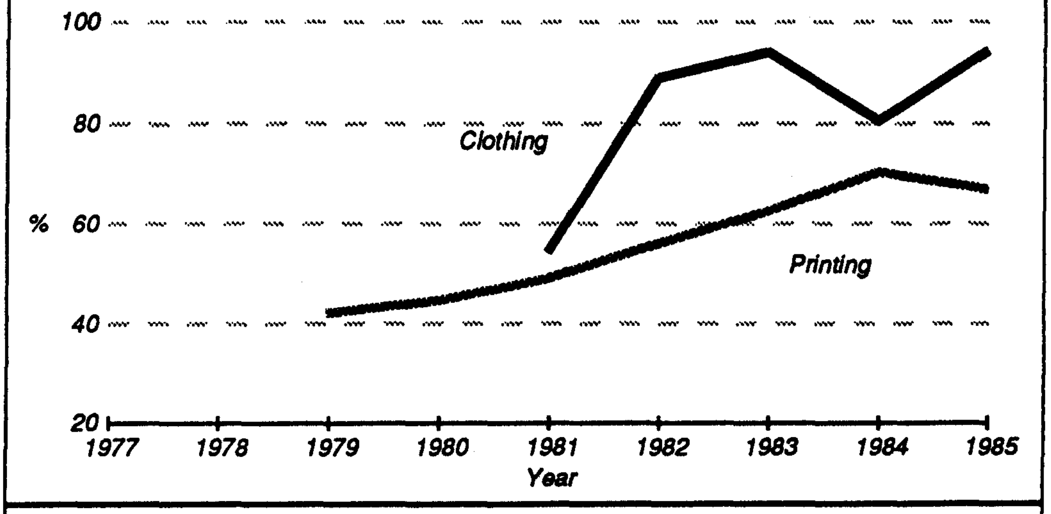
31 *Note that these are in current prices (i.e. nominal values), unlike the other tables which are in constant (1985) prices.*

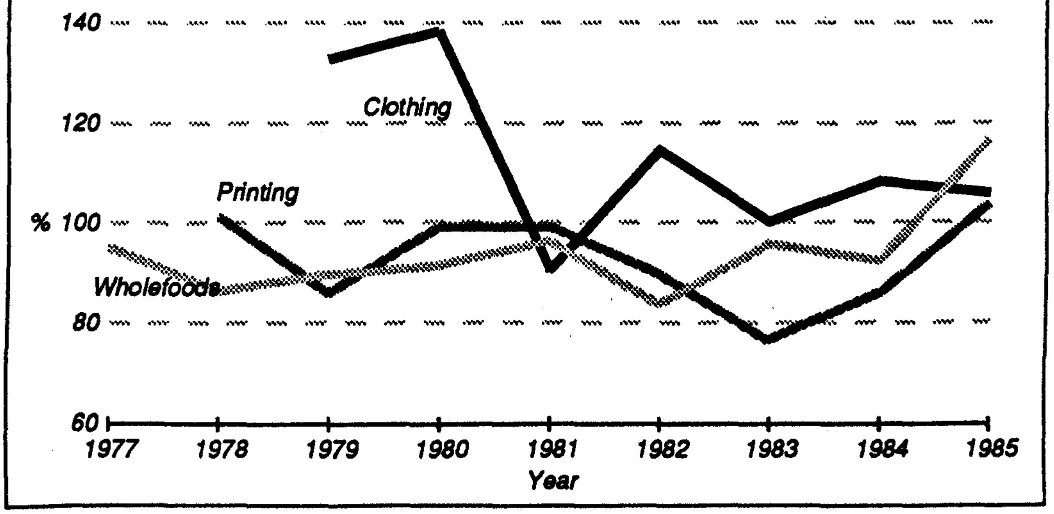
7.6a Average wages in co-ops *(current prices)*

7.6b Wages as % of industry average

7.6c Wages as % of net value added







time, and there may not be enough data to draw strong conclusions, but the indications for co-ops are favourable.

Among wholefood co-ops overall average wages have risen from £1,511 in 1978 to £4,002 in 1984. However, these figures for the wholefood sector reflect a major divergence between wages in the wholesale and retail sub-sectors: in retail wages have risen from £1,460 to £3,016 over the same period, in wholesale from £2,231 to £5,825; that is, in 1984 wages in wholesale wholefood co-ops were 90% more than those in retail, and were around the same level as those in printing co-ops. Comparative data on earnings in food distribution[33] do reveal a differential between wholesale and retail, but this is consistently less than 10%. This suggests that there are other major distinctions between wholesale and retail wholefood co-ops which are not simply reflections of general sectoral differences.

The position of wholesale and retail co-ops relative to the sector varies. In 1984 co-op wages were 80% of male wages in wholesale food distribution, and 126% of female wages[34]; the equivalent figures for retail were 45% of male rates and 68% of female rates. Comparisons between wages in clothing and printing co-ops (as well as wholefoods) and pay levels reported in the *New Earnings Survey* in 1984 are given in Table 5.11, and show that wages in wholefood wholesaling were by far the highest, relative to wages in comparable capitalist firms, out of any co-op sector.

Thus wholefoods reflects a position of contrasts: in the wholesale sub-sector, wages are the highest relative to the industry average of any of the sectors studied, and equal highest in absolute terms, and yet in wholefood retailing wages are the lowest relative to the industry average and the equal lowest in absolute terms.

The finding that wages in co-ops are lower than those in capitalist firms is supported by 'virtually the only [other] comparative data', which found that 'in a sample of 100 small US co-ops .... pay is typically much lower than the average for the industry'[35].

33 From the New Earnings Survey; there is no equivalent to the Census of Production for this sector.
34 female wages in all wholesale distribution
35 Estrin, 1985, p. 21, citing Jackall & Crain, 1984.

Relationship of wages to value added

Further insight can be gained by comparing wage levels to the level of surplus, or value added, generated in a co-op. This reveals whether the level of wages paid is sustainable over the longer term. There is also a crucial connection with the generation of co-ops' surplus; given the problems faced by co-ops in raising finance due to the lack of equity (share) finance which can be used as gearing for raising loans, the ability of co-ops to retain some surplus as reserves is the main source of gearing, and hence is crucial for their ability to secure loan finance. As we have seen above, increases in the stock of means of production per worker have primarily enabled printing co-ops to enjoy such a rapid increase in their overall productivity and surplus generation. A high proportion of value added retained for investment is therefore essential if co-ops are to expand, but this must be combined with evidence of the level of wages paid to see if reinvestment is at the expense of low wages.

In the clothing industry as a whole the proportion of value added devoted to wages has fluctuated between 63 and 69% over the period 1980-1985 for small firms, after profit and depreciation taking 31-37%. The low level of finance required for clothing manufacture suggests that profits are high in the industry.

Table 7.7 Wages as % net value added

Year	C	*P*	W
1977	..	..	94.5
1978	..	100.7	85.7
1979	132.1	85.4	89.1
1980	137.7	98.5	90.8
1981	89.8	98.6	95.6
1982	113.9	89.1	83.1
1983	99.5	75.9	95.0
1984	107.6	85.8	91.6
1985	105.1	103.1	..

Source: as for Table 7.1

Clothing co-ops face a different situation. Although relative to industry levels, wages are high compared to other co-op sectors, this is achieved by paying out a very high proportion of value added in wages (see Table 7.7 and Figure 7.6c). This proportion has only been below 100% in one year out of the period 1980-85; apart from the 90% achieved in 1983, it has varied from 100% to 138%. That is, wages have generally been higher than the surplus generated, leading to accounting losses and paying wages from reserves. This is not sustainable in the long term without further injections of finance - either subsidies, grants or further loans to meet these deficits. Some clothing co-ops have achieved this; clothing co-ops have had the highest level of subsidy (per co-op) of the three sectors. Nevertheless, even when this source of income is taken into account, clothing co-ops are still devoting virtually all of their surplus to wages.

Printing co-ops show wages at lower levels of value added than clothing; over 1979-84 they varied from 76% to 99%, although the incomplete figures for 1985 show this rising to 103%, indicating that problems may be arising. Co-ops devote a higher proportion of value added to wages than do capitalist firms, but the differential in printing has been declining over time.

Wholefood co-ops overall devote a similar proportion of value added to wages as printing co-ops, and somewhat less than clothing co-ops. Between 1977 and 1984, 78% to 89% of value added went in wages. Again there are differences between the sub-sectors; in wholesaling the range is 60-86% over 1979-84, whilst in retailing it was 85% to 104% over 1977-1984. Thus the former, besides achieving impressive levels of wages, has done so whilst retaining a higher proportion of surplus for reinvestment than any of the other sectors examined. Retail wholefood co-op-ops have some surplus left for reinvestment but as we have seen earlier, this is at the expense of very low wages.

Index of value added

Table 7.8 shows the *Index of Value Added* (developed in Mondragon) for co-ops in the selected sectors. This 'index of productivity' gives different results from other measures. It shows increases in all co-op sectors, and is highest in clothing and wholefood retailing. Both of these sectors are labour-intensive, and it is likely that this result reflects above all the very low costs of capital faced by these co-ops. Unfortunately the measure is easily distorted - for instance by renting rather than owning premises - and as a result is difficult to interpret reliably and consistently.

Table 7.8 Index of value added

Year	C	P	W
1977	..	..	414
1978	..	55	607
1979	468	89	676
1980	146	127	785
1981	250	165	676
1982	354	296	808
1983	668	396	768
1984	714	312	613
1985	790	192	..

Source: as for Table 7.1

CONCLUDING REMARKS

In the above sections I have concentrated upon a detailed but descriptive analysis of the commercial performance of co-ops in the three sectors over the period 1976-1985. Inevitably such an exercise tends to be somewhat dry, but nevertheless presents information which is essential for an understanding of the role of co-ops in the British economy in the early 1980s. In this summary, and the next three chapters, I attempt to interpret and explain the performance record of these co-ops, in the context of wider economic and industrial changes and the experiences of some individual co-ops.

The most striking result is that co-ops appear to have been less productive, in commercial terms than capitalist firms, as measured by average output and value added per worker[36]. Several consequences stem from this. Firstly, it is from the surplus generated in co-ops and capitalist firms that wages are paid, profits are distributed (in capitalist firms) or devoted to accumulation. Accumulation is the basis upon which future competitive ability and commercial performance depend. Given that co-ops tend to be under-financed initially, and that relief offered by public-sector funding tends to be concentrated on new co-ops, then accumulation from this surplus is the main means by which co-ops can gain the additional finance needed to increase the stock of means of production and secure their future

36 Although it is necessary again to stress the limitations of the comparison, which may be biased by the concentration of co-ops into particular sub-sectors, such as badly performing CMT in clothing, and co-ops' concentration amongst very small enterprises. Nevertheless, the contrast between co-ops and capitalist firms remains overwhelming.

commercial survival. This is demonstrated in the actual experience of co-ops revealed in the last chapter.

In a capitalist economy, where finance and means of production are allocated through the market mechanism, there will be a tension in the distribution of a firm's surplus between workers' wages and the demands of capitalists for personal consumption and accumulation to strengthen their future position. This conflict over distribution is one element of the wider class conflict between workers and capitalists. Unless co-ops are somehow protected from the need to compete with capitalist firms they too will face the same tension; although the contradiction between capital and labour has been abolished within the enterprise, it remains on a social scale. Therefore co-ops must match the accumulation carried out by capitalist firms if they are not to become progressively weaker, unless there is intervention in finance or product markets to protect them.

The lower surplus generated by co-ops means that the tension between accumulation and wages will be particularly intense. It has been revealed that the proportion of value added devoted to wages in co-ops is higher than in comparable capitalist firms, and this in a situation where internal accumulation provides the main source of finance for established co-ops[38]. In addition, wages are also lower in co-ops, a result which supports some of the suspicion held by trade unions towards them. It is a widely held view that many co-ops only survive by paying low wages; the overall results show that despite paying low wages, British co-ops have still to match their capitalist rivals in commercial terms.

Co-ops studied are reliant upon their own reserves for strengthening their position. Although public sector finance is important in aiding the formation of co-ops, it has yet to secure their establishment on a basis where they can compete effectively on capitalist terms. The crucial role of accumulation based upon internal resources is essentially the same as saying that co-ops use 'sweat equity' as a substitute for external equity - they have to generate 'gearing' from their own resources. The previous chapter revealed was that

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37 This tension does not exists where capital is socially allocated, as has been the case in Yugoslavia.

38 In capitalist firms some of the surplus is distributed as dividends, and hence not retained for accumulation; figures are not readily available for the amount retained in capitalist firms. It is worth bearing in mind Storey's (ref. alan#) point in criticism of state aid to small firms, which goes to increase distribution to owners rather than investment. However, the proportion devoted to wages in co-ops is so much higher than in capitalist firms that even taking into account dividends,it is likely that co-ops are retaining less than capitalist firms.

external commercial finance which can theoretically be raised on the basis of this gearing is not increasing at the same rate.

The failure of external finance to provide sufficient resources for co-ops' growth and accumulation means that the need for 'sweat equity' is not just limited to new co-ops but applies to established co-ops as well - therefore co-op workers face the same downward pressure on wages as capitalist firms, a position resulting from the need for both capitalist firms and co-ops to accumulate to survive.

It would appear that wages in co-ops are a high as they can be, commensurate with continued accumulation - higher wages would jeopardise the future existence of co-ops. The problem is not low wages or accumulation per se but a low surplus - the key question is why do co-ops generate on average a much lower surplus per worker that their capitalist competitors?

To a degree the problem is a circular one - co-ops perform badly because they are under-financed, but are under-financed because they do not perform well enough to accumulate. The problem is of course worse for co-ops than capitalist firms because of their tendency to secure less external finance and be even more reliant upon internal resources.

The importance of availability of finance is reinforced by evidence that improved performance has largely resulted from increases in the stock of means of production, for which internally accumulated resources are required. Thus overall performance of co-ops could be improved by greater availability of external finance, to increase the stock of means of production faster than can be achieved through internal accumulation.

One important factor relating to co-ops' underperformance is their relatively recent establishment - it is to be expected that 'new' co-ops would perform less well than established capitalist firms. This is supported by changes in the relative position over time; where evidence is available, comparisons suggest that the relative disadvantage of co-ops is diminishing, at least in the printing and wholefood sectors. Examining the dynamic of co-ops overall also reveals the different experiences of co-ops in the three sectors. It immediately appears that the 'vicious circle' of low accumulation and poor performance is more intense in some sectors than others; also some individual co-ops have succeeded in breaking out; what are the characteristics of co-ops and of co-op sectors which explain these changes?

8. Printing Co-operatives

INTRODUCTION

The printing industry is one where workers' co-operatives have traditionally been strong. Printing co-operatives flourished in the 19th and early 20th centuries, and several of them survive to this day. In the resurgence of worker co-operative activity in the 1970s and 1980s, printing co-ops have again been important; in 1986, of the 880 known worker co-operatives, some 60, or 7%, were classified as being in printing, with 89 in the broader printing and publishing sector. The overall structure of the printing industry is one of a few large firms and many small and medium sized firms in competition, but with few direct trading links. It therefore appears to meet the conditions for inclusion as an example of Schutt & Whittington's 'independent and competitive' category of small firms[1].

There are several reasons why the printing co-op sector is interesting. Firstly, many of the problems facing workers in general during during recent years are particularly manifested in the printing industry - notably the loss of jobs, the impact of rapid technological change and attempts to destroy the relatively high degree of control and organisation which workers and unions have historically gained in the industry. In the context of these changes, can co-ops potentially contribute to the protection of the position of labour in the industry? Secondly, the printing industry was selected by the GLC/GLEB for a sector strategy aimed at countering destructive effect of these changes, and the promotion of co-ops formed an integral part of this strategy[2]. While this may appear to be unreasonably London-centered (a criticism which probably has some truth in it), it is partly because London has traditionally been (and still is) a centre for Britain's printing industry, but also because the policies and environment created by the GLC in London may have important examples for the rest of the country.

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1 *see chapter 4.*
2 *GLC, 1985; GLEB, nd(e).*

THE PRINTING INDUSTRY

Labour process and technological change

The print industry has been undergoing major restructuring over the past decade, centered on three main issues. Firstly, there is a crisis of profitability which has developed since the early 1970s and was intensified by the recession of the early 1980s. As a result, printing firms are threatened by bankruptcy and are adopting measures to overcome the crisis. This leads to the second characteristic, which is that printing firms have introduced major changes in production, partly to increase labour productivity and partly to break up the existing labour organisation and influence within the industry. New technology leads to both job losses and radical changes in the existing skill structure of the industry, the latter enabling employers to abandon the traditional system of recruitment and training over which the trade unions had a relatively high degree of control. The third issue is that the boundary between the printing industry and other sectors - particularly information and communications - is becoming increasingly blurred. In this context, industrial disputes in the industry have been widespread, most prominently in newspaper production where workers have been strongest, and where all of the above elements are present. As the potential gains for capital of undermining or destroying this strength have increased, so have their actions become more aggressive, as the owners of *The Times* (both under Thompson with the 1978/79 lockout, and under Murdoch with the move to Wapping), the Mirror Group (Maxwell) and numerous regional papers have demonstrated. Two of these disputes led directly to the establishment of workers' co-operatives, at the *Scottish Daily News* and *Nottingham News*.

The use of technology to break the power of the print unions and reassert capital's control over production has been particularly obvious in recent years. By the nature of the product, the conflict is highly public, but it is also the case that Fleet Street has traditionally set the terms on which workers and capitalists operate throughout the industry[3]. At the same time the applicability of conditions in Fleet Street to the rest of the industry can be overstated[4]; workers in small printing firms are not generally in as strong a position as their counterparts in Fleet Street. Before examining the current state of the industry and the

3 *Marshall, 1983, p. 18.*
4 *Rainnie, 1985b.*

position of co-operatives within it, I will firstly examine the industry's historical development.

Historical development

The printing industry was first established in Europe in the 15th century. In many ways it remained unchanged for nearly four centuries, with few major alterations to the essential organisation of work, ownership and the nature of production. The industry was dominated by skilled workers employed in small printing shops, using labour intensive production methods.

From the earliest days of printing, workers have undertaken strong mutual organisation in order to protect their skills and position. In common with many other industries, workers became organised into craft guilds; these had three main functions: (i) maintaining standards of craftmanship; (ii) promoting fraternity and solidarity between workers, which lessened the animosities inseparable from commercial competition, and (iii) regulation of working conditions, wages and the allocation of work[5].

Much printing work was undertaken by casual labour, and unemployed printing workers would be supported by their trade society in order to prevent them from undermining wage rates at a time of labour surplus; similarly the society's 'call house' would attempt to distribute available work amongst recognised printing workers, who would often have to move from town to town in search of employment[6]. This 'tramping system' was widespread amongst craft workers in pre-capitalist days, but remained longer in printing and in a modified form still operates today, with much labour recruitment still controlled by trade unions. Despite this collective organisation, however, the early printers' societies remained largely conservative in their outlook.

Industrialisation came late to the industry; it remained initially unchanged during the industrial revolution in the late 17th and early 18th centuries. Although machinery and steam power played a crucial role in the development of other industries they had little impact on printing[7]. However, the existing structure could not be maintained as the industry came under capitalist control. Previously, masters were craftsmen themselves, but

5 *Child, 1967.*

6 *Marshall, 1983, p. 16.*

7 *Only in the case of The Times, which for so long used revolutionary techniques to propagate conservative views, was there a symbol of the new era - a steam driven press (Child, 1967, p. 47).*

as larger joint stock firms grew increasingly important, the division between workers and employers increased. Capitalists continually aimed for lower labour costs and more productive labour processes, using the two main weapons of mobilisation of cheap labour and introduction of machinery. Mechanisation and the division of labour increased, although without dramatic technical change, whilst skilled journeymen continued to restrict labour supply by collective action and limitations on apprenticeships.

Craft unions emerged from the old printing societies, and their struggles centered around the same issues of wages and conditions, and the apprenticeship system upon which their negotiating strength and job security was based. Despite rapid increases in productivity and continual attempts by employers to increase the number of apprentices, solidarity was largely maintained; where it was not, working conditions were particularly atrocious.

Printing involves three main stages of production: the pre-press stage (typesetting, composing and the making of the printing surface); the press stage; and finishing (collating, folding and binding). The pre-press stage produces a bespoke product, while the press and finishing stages are carried out on a small batch to mass production basis. All three stages have traditionally involved skilled labour, although as mechanisation has proceeded much greater use of unskilled labour has resulted.[8]

Increasing demand for newspapers, periodicals and books in the 19th century helped labour's position even as technological developments took place. The radical press flourished, thriving on and supporting working class agitation; ironically this was because the Stamp Acts levied taxes on newspapers (in an attempt to keep the price high and so prevent the working class from reading newspapers) and served to inhibit circulation and

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8 The impact of mechanisation in the 19th century, and the drawing in of child labour, was described by Marx in relation to the need for Factory Acts legislation:

> *In the English letter-press printing trade, for example, there existed formerly a system, corresponding to that in the old manufactures and handicrafts, of advancing the apprentices from easy to more and more difficult work. They went through a course of teaching till they were finished printers. To be able to read and write was for every one of them a requirement of their trade. All this was changed by the printing machine. It employs two sorts of labourers, one grown up, tenters [machine minders], the other, boys mostly from 11 to 17 years of age whose sole business is either to spread the sheets of paper under the machine, or to take from it the printed sheets. They perform this weary task, in London especially, for 14, 15 and 16 hours at a stretch, during several days in the week, and frequently for 36 hours, with only 2 hours rest for meals and sleep. A great part of them cannot read, and they are, as a rule, utter savages and very extraordinary creatures. To qualify them for the work which they have to do, they require no intellectual training; there is little room in it for skill, and less for judgment ... and the majority of them cannot look for advancement to the better paid and more responsible post of machine minder, because while each machine has but one minder, it has at least two, and often four boys attached to it. (Marx, 1954, p. 455-456).*

profitability of the capitalist press, so restricting accumulation. While stamp duties were in force they inhibited the incentive for technological change and allowed the radical press (on a technical level at least) to compete with the establishment on the same terms. Once duties were repealed in the 1860s the situation changed and "for the British press this was the beginning of a new era in which economic control replaced legal and political control as the driving force behind newspapers"[9].

From the 1850s printing became rapidly more capital intensive and more mechanised, but the basic structure of production remained little changed until the end of the century. The press stage became largely mechanised during the second half of the 19th century, with the major event being the invention of the high speed rotary press in the 1880s. At the end of the century the pre-press stage was also mechanised, with the introduction of linotype and monotype machines. Mechanisation involved the replacement of skilled by semi-skilled tasks, although some skilled jobs did remain or were newly created; nevertheless the high degree of organisation of skilled workers and favourable demand conditions did enable them to retain much control over the introduction of new machinery. The main technological revolution took place between 1890 and 1914, with profound and general change in both the processes of production and the methods of organisation. Nevertheless the displacement of skilled workers was buffered by the general expansion of demand on the basis of mass education, advertising and commerce.

Printing in the 20th century - conflict and change

Since the turn of the century three main types of printing process have continued to be used - letterpress, litho, and gravure. In the 20th century major technological changes have taken place which have eroded the classic structure of the industry and its craft organisation. The main ones have been:

- the introduction of and radical improvements in offset litho printing, especially the development of web offset machines (using a continuous roll of paper rather than sheets);

- the development of simpler typesetting methods, based on phototypesetting, suited to litho printing and much simpler than for letterpress printing;

9 *Marshall, op.cit, p. 21.*

• the development of other reprographic methods (particularly photostating), with greatly widened commercial applications;

• the application of computer technology: firstly to typesetting, leading to the replacement of photosetting with digital setting, and secondly the associated development of computer-controlled laser printing. Although not yet extensively developed in the industry, laser printing represents the first time in the history of printing that the press stage has moved away from printing from a relief surface.

The invention of offset litho printing in 1904 has had a major impact on the industry throughout the 20th century, for two reasons. Firstly, it requires different skills from the older letterpress process, particularly when combined with phototypesetting; the latter is much more akin to traditional 'secretarial' work than to the tasks of the printing hand-compositor. Secondly, the machinery was relatively cheap to purchase and easy to use, at least for low to medium quality products. For high quality, high quantity and multi-colour work, capital equipment is very expensive and requires large scale operation, but much printing work is in relatively short runs and with basic quality requirements. These two factors have enabled new capital to enter the industry, particularly in small scale production, and avoid traditional areas of control by labour, as workers from outside of the industry could be recruited into positions requiring new skills.

In larger scale printing the introduction of computer technology has deskilled other parts of the production process, such as machine minding and adjustment, as they have become increasingly automated. Most recent developments have accentuated changes at the pre-press stage, with the link between word-processing in offices and typesetting in printing firms becoming less distinct. The changes are not necessarily because the new technology is itself deskilling (although it often is), but also result from the way in which technology is used. For instance, computer typesetting is much more complex and intellectually demanding than using the old linotype and monotype machines, but the change is being used by employers to break up tasks into simplified and easily quantified sections, over which capital can more easily maintain control. By placing the emphasis on volume production, and using technology to introduce mass production methods into composition, the effect is to increase productivity and reduce union power, instead of using technology to enhance workers' skills and control over production. Thus it is the process of introduction of new technology which is as important as the technology itself.

Gender divisions

In the past craft workers have managed to retain a relatively high degree of control over working conditions, although at times this has led to inertia and a slow response to technical change. Another result is that wages and earnings in the printing industry, even excluding newspapers, are considerably above the average for manufacturing; hours worked are marginally shorter, as shown below in Table 8.1. It has led to a level of male dominance which has been largely unchanged since pre-capitalist days[10]. This is illustrated in the massive gulf between male and female earnings in the industry, and it is clear that the differential between men's and women's wages in the printing industry is greater than in manufacturing industry in general (1.8:1 compared to 1.6:1). The strength of labour has essentially been used to protect the position of skilled males, rather than workers as a whole. This is due to job demarcation and the preservation of 'skilled' well paid work for men, rather than paying women less than men for the same work.

Table 8.1 Wages and hours worked in the printing industry

		All inds (SIC 0-9)	*All mfg. (SIC 2-4)*	*All P & P (SIC 475)*	*General P & P (SIC 4754)*	*Print Co-ops*
(mean)	M	152.7	158.9	201.1	179.7	109.1
weekly	F	93.5	96.0	112.1	..	..
wage	M	143.3	149.7	181.3	158.3	..
(median)	F	88.6	92.1	100.0	..	..
weekly	M	44.3	44.4	42.2	..	43.2
hours	F	39.4	39.9	39.2	..	
(mean, inc. overtime)						

Note: P&P = printing & publishing

Source: *New Earnings Survey*; Co-ops Survey.

Printing capital has attempted to use female labour to undermine craft workers' position and organisation, especially in composing and binding. For capitalists in the 19th century, female workers were a step forward: they worked for around half men's wages (with

10 *Cockburn, 1983, 1985a.*

virtually the same situation today) and had little of no union protection; as a result working conditions were often appalling:

> conditions in the workshops, especially of some large Bible contractors, were shocking. Arbitrary discipline, inadequate ventilation, lack of sanitation and miserable wages frequently prevailed where the unfortunate women toiled to produce the Word of God[11].

Skilled male workers generally (but not always) saw women as a threat, as indeed they were when used by capitalists in this way. A few small print shops were started by philanthropic feminists after 1859; although they were never widespread, it did show that women were capable of carrying out tasks involved in print work.

In the present era, as a result of male domination, the increasing role for women in the word-processing/composing/typesetting stage of production is treated by the unions as a threat rather than an opportunity to act to improve the status of women in the industry as skilled workers. I will return to this point later when discussing the role of co-operatives in the industry.

Output and employment

Like virtually the whole of British industry, printing was hit by the recession of the late 1970s and early 1980s. Output and employment trends in the industry are shown below in Table 8.2 and Figure 8.1. Although output has steadily increased in value terms, this conceals fluctuations in the *volume* of output. In common with British industry as a whole, output fell in real terms during the depths of the recession in 1979-1983, although the decline in printing came later than in production as a whole. Since then output has been steadily increasing. The output volume index for the general printing and publishing subsector (SIC 4754, 1980=100) fell from 103.4 in 1979 to 93.6 in 1983, and has since climbed to 121.4 in 1986, a rise in output of 30% in 3 years, significantly more than in the economy as a whole.

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11 Howe & Child 1951, p. 161

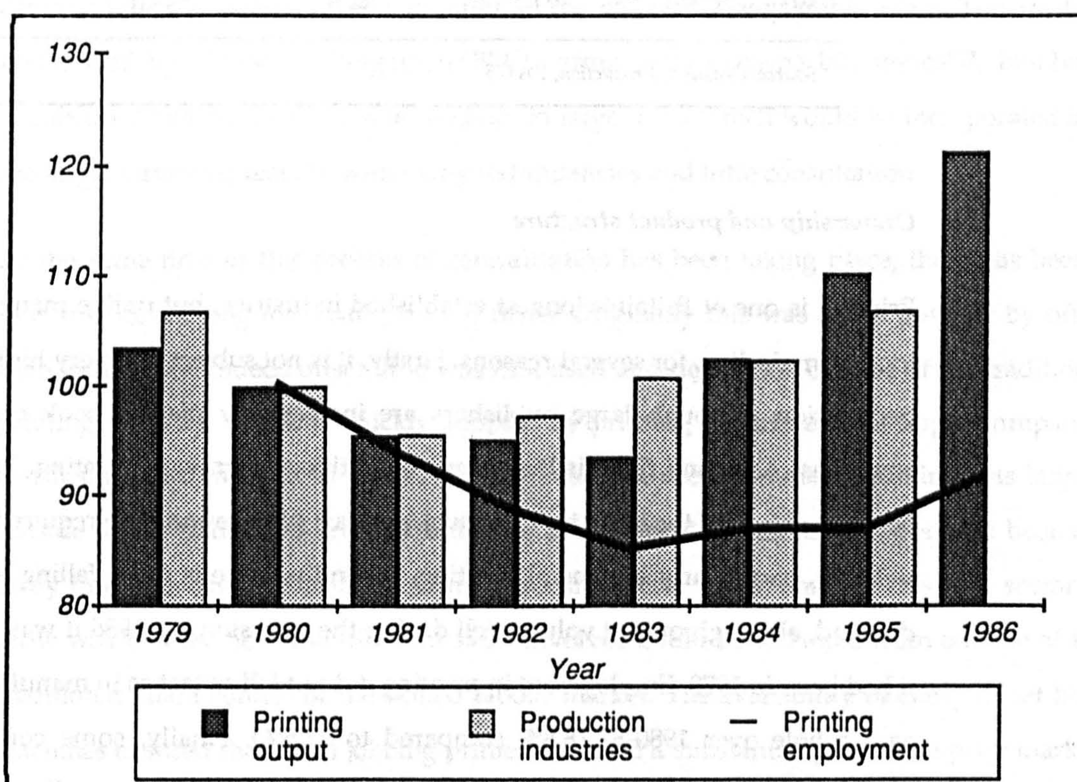
Table 8.2 Output and employment in printing

	SIC	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*
Output (£m)	475	..	..	7,321	7,951	8,317	9,794	10,979	11,760
	4754	..	..	2,549	2,732	2,944	3,501	3,906	4,425
Output volume	4754	103.6	100.0	95.5	95.2	93.6	102.6	110.4	121.4
	1-5	106.9	100.0	95.6	97.4	100.9	102.5	107.0	..
Employment ('000)	475	339.3	322.1	309.4	302.1	299.4	301.9	..	
	4754	..	136.1	127.6	120.5	115.7	118.1	118.1	

Notes:
SIC 475 - All printing & publishing
SIC 4754 - General printing & publishing
SIC 1-5 - All production industries
Volume index based on 1980 = 100.

Source: Business Monitors PA475, PQ4754

Figure 8.1 Output and employment in printing *(Index, 1980=100)*



The initial fall in output was associated with a greater fall in employment; the number of workers in the subsector fell by 15% from 136,100 in 1980 to 115,700 in 1983, as output fell by 6.7%. The same trend applies to the printing and publishing industry as a whole. Rising output since 1983 has been accomplished with an approximately steady level of employment, representing an increase in the volume of output per worker of around 16% in the two years 1983-1985, and 27% over 1980-85. This tells a story which is typical of that of British industry: the 1979-83 recession was used as a means to bring about widespread redundancies and a lower level of employment, and the subsequent increase in demand has not been reflected in increased job opportunities, rather in increased profits, and higher wages for those who remain in the industry. The total wage bill as a proportion of gross value added and of output (see Table 8.3) fell during 1980-2, indicating that the effect of job losses was to increase profits, rather than productivity increases being shared with the remaining workers, although since then workers have recovered some ground since then.

Table 8.3 Printing: share of wages in output and value added (%)

	1980	*1982*	*1984*
Wages/Output	29.5	24.8	27.4
Wages/GVA	59.0	54.0	56.0

Source: *Census of Production*, PA475.

Ownership and product structure

Printing is one of Britain's longest established industries, but unlike many others is not in long-term decline, for several reasons. Firstly, it is not subject to a very high level of import penetration, although large publishers are increasingly placing book printing orders in south-east Asia, and there is European competition in gravure printing. The localised and bespoke nature of the industry's product, and fast turnaround time required, makes imports unlikely, particularly in general printing. Secondly, there is not a falling level of domestic demand; although output volume fell during the recession, by 1986 it was 17% higher than it had been in 1979. Employment in printing did not fall as fast as in manufacturing industry as a whole over 1980-82 (8.8% compared to 17.5%). Finally, some commentators have heralded the rapid development of electronic communications as spelling the death of the printing industry in its present form. However, this is not a realistic position; rather than being in decline, printing is undergoing extensive restructuring, of which its partial amalgamation into information and communications industry is a part. These overall changes do of course conceal differential impacts; for instance, London as the traditional centre of the industry has been particularly hard hit. It is the changing nature of the industry's product, skill requirements, labour process and ownership structure which gives it its present characteristics, rather than any process of absolute decline.

The major trend in the ownership structure of the printing industry has been increasing centralisation of capital. In the 1960s many printing firms were absorbed into industrial groups with newspaper, book and magazine publishing, and leisure (TV and radio) interests. During the 1970s and 1980s this process has continued, with trends towards integration into more diversified leisure and communications industries, which are in turn dominated by multinationals for whom printing is likely to be only one of many interests. The largest firms operate in book, gravure (magazine/periodical) and security printing, in part because of the very substantial cost of setting up in these areas, but also because of the direct links between printing and publishing. This trend can only be accelerated as the nature of print changes from a physical product to an electronic digitised image, and feeds directly into information and communications channels on a global scale. The strategy epitomised by Maxwell's Pergamon/BPCC group was extreme but typical[12], involving acquisitions and rationalisation of medium to large firms which would be incorporated into the larger structure, usually with many redundancies and little consultation.

At the same time as this process of centralisation has been taking place, there has been a new role developing for small printing firms. Originally this was made possible by offset litho technology. Indeed offset litho was first used and developed outside of the traditional printing industry, and was quickly adopted by printing departments of larger companies and institutions engaged in other forms of business; such 'in-house' printing was largely outside of the traditional areas of influence of the printing unions, and yet took business away from conventional printing firms. A second factor which enabled this new sector to grow was that the new and different skills involved could be recruited from outside of the traditional union control of the skilled labour market. The availability of cheap offset litho machines ensured that small jobbing printers covered a substantial part of the print market. More recently the declining cost of computer typesetting has also opened up further areas of print to small firms.

12 *Marshall (1983, chapter 4) quotes many other examples, including Pearson Group, Thomson, Reed International, News International, all of whom have grown into print and communications conglomerates.*

For many years this non-union growth was restricted to printing departments of primarily non-printing organisations, and to a minor part of the small jobbing printer sector known as the 'rat trade', where wages and conditions of employment were particularly bad[13]. Existing union strength was sufficient to ensure that most printing firms retained traditional methods of recruitment and control of work organisation and allocation, through the threat of boycotting work which originated in non-union ('closed') shops. This was particularly the case once the unions had realised the full impact of offset litho technology, which they had originally dismissed as not 'real' printing.

A more recent development which has posed a potentially more serious threat to the position of labour is the emergence of high-street 'instant-print' shops. These have grown rapidly over the last 10 years, and have taken a great deal of work away from the traditional small jobbing printer, especially the uncomplicated work with relatively high profit margins. Most instant print shops are franchised. This involves large capitals in a low-risk accumulation strategy, leaving individual franchisees - subject to market discipline - to deal with demand risk and control over labour at a time of restructuring and conflict. It is a classic case of Schutt & Whittingtons 'devolvement' fragmentation strategy[14]. Most franchisees are deliberately selected from outside of the printing industry, to avoid 'contamination' by established printing industry attitudes[15], ensuring a separation between franchised printing and the traditional (organised) printing industry. Franchised businesses are almost all non-union, with very poor wages and conditions by printing industry standards, and represent an area in which the unions find great difficulty in becoming established[16].

Despite this restructuring the traditional role of small printing firms has remained. Small jobbing printers are vulnerable to the new competition from non-union instant print shops, but are relatively strong in competition with large firms. This results from the nature of small firms' relationship with their market, and the same process makes it unlikely that small firms will be taken over by large firms as centralisation of capital continues:

> the bespoke nature of the product limits the technical advantage obtained from large scale production, and there is often a strong marketing advantage arising

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13 Goss, 1987, p. 80-1.
14 Schutt & Whittington, 1987.
15 Goss, 1987, p. 82.
16 GLEB, nd (e); Goss, 1987.

> from local knowledge of customers and from geographical contiguity between printer and customer.[17]

In most areas of traditional printing the only source of economies of scale is the length of the print run; thus large printing firms tend to be found in book and periodical printing where these conditions apply. Most general printing work involves only relatively short runs and thus small firms are not at a competitive disadvantage; in fact they may have an advantage through lower overheads, and sometimes through lower wage costs.

By the early 1970s the print industry in Britain consisted of a very large number of small businesses operating in local markets and a small number of large printers operating in national and international markets; in between are 'intermediate' printers, competing in both markets and becoming increasingly squeezed from both sides[18]. Strong competition between small and intermediate printers has generally worked in favour of the former.

In 1985 nearly 80% of all printing firms had less than 10 workers, whilst 98% had less than 100; these produced 41% of the industry's total output. Small firms are much more important in printing than in manufacturing industry as a whole, where firms with less than 10 workers make up only 69% of the total; those with less than 100 workers make up 94% and produce only 32% of output. Furthermore the role of small firms has been increasing in importance over time. The importance of production in small enterprises is even more marked in the general printing and publishing subsector (SIC 4754), compared to printing and publishing as a whole (SIC 475). In 1984 the average (mean) size in the former was 11.7 workers, and 18.8 in the latter.

Small printers are typically general jobbing printers, producing work with relatively unsophisticated technical requirements, although there are some highly specialised firms providing a specific service to other firms in the industry. Printing co-operatives fall into the first category, thus the relationship to large firms is one of competition rather than one of dependence. Intermediate printers can often only compete by producing work of a higher quality than general jobbing printers, but the cost of equipment required to enter this field - particularly colour work - is high, and furthermore faces competition from the high quality high volume large printing companies. Given this structure the role of small firms in the

17 BPIF, 1979.
18 ICC, 1986, p. x.

For many years this non-union growth was restricted to printing departments of primarily non-printing organisations, and to a minor part of the small jobbing printer sector known as the 'rat trade', where wages and conditions of employment were particularly bad[13]. Existing union strength was sufficient to ensure that most printing firms retained traditional methods of recruitment and control of work organisation and allocation, through the threat of boycotting work which originated in non-union ('closed') shops. This was particularly the case once the unions had realised the full impact of offset litho technology, which they had originally dismissed as not 'real' printing.

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17 BPIF, 1979.

18 ICC, 1986, p. x.

printing industry can be primarily characterised as falling into Schutt and Whittington's[19] 'independent and competitive' category; most printing firms do not have direct trading links with large firms. As always however such categorisation is not perfect, and some firms operate in the 'dependent' category, subcontracting and supplying large firms.

Besides a division into a few large and many small firms, the printing sector is also differentiated by product, although in practice product and ownership divisions are closely linked. 'Printing' as an industrial sector generally includes publishing, because of the frequent dual role of firms as printer/publishers and close links between the two activities. However the dual role of firms is typical of only part of the industry - specifically newspapers but also some book and magazine publishers - although it is becoming more important as the incorporation of printing into conglomerates takes place. Furthermore the nature of work and production in printing is very different to that in publishing, and restructuring has a different impact on each; whilst one effect of current restructuring is to bring printing and publishing closer together, it is useful to keep a conceptual distinction between the two as far as possible. The general printing sector exists in addition to the three subsectors (newspapers, books and periodicals); it includes some specialist printers (e.g. security and city printers) but also the bulk of jobbing general printers, which is where most co-operatives operate.

This relates to a further characteristic of the printing industry which is of particular importance when considering co-operatives: the special relationship between printing firm and customer. Printing is mostly engaged in producing a bespoke product, to a particular customer's specifications, frequently leading to a close relationship between producer and consumer, and encouraging market specialisation by particular firms. This characteristic has specifically worked in favour of printing co-operatives.

The first half the 1980s has seen the restructuring process in the printing industry moving ahead very rapidly, as historic processes within the industry coincide with massive changes taking place elsewhere in the economy; the impact of this within the industry is illustrated by both the changes in output, employment and productivity detailed earlier, and by the battles between print unions and employers.

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19 See Schutt & Whittington (1984, 1987), and chapter 3.

The growth of the co-operative sector also stemmed from the particular economic and political circumstances of the later 1970s and early 1980s. The combination of all of these factors - resulting in the growth of print co-operatives - will be examined shortly, but first I will briefly mention the GLC's intervention initiative as a response to the state of the printing industry in the early 1980s.

GLC/GLEB sector strategy

The intervention followed the general principles set out in the GLC's *London Industrial Strategy;* that the restructuring taking place would not be ignored but an attempt would be made to change its terms - restructuring for labour rather than restructuring for capital. The 'sector strategy' was important in printing for two reasons: firstly, the industry plays a major role in the London economy - the combined paper, printing and publishing sector is now the largest manufacturing industry in London. Secondly, one aspect of restructuring is employers' use of technological change, and consequent new skill and labour requirements, to move out of London and away from the strong labour organisation there. Such a move was facilitated by the ease of separating out functions within an organisation as electronic communication and data transmission improved, and as print material becomes more computer-based.

The aims of this strategy were deliberately limited, recognising the restricted resources at the council's disposal; the main ones were:[20]

• to improve and increase the jobs available to women and and black workers, who are restricted to poor opportunities and inferior jobs in the industry;

• to ensure that new technologies are not introduced in ways that lead to unemployment and deskilling, using them to produce better rather than worse jobs;

• to extend and strengthen the role of workers and their organisations in the running of firms.

In practice this intervention meant working with a few firms in the hope of providing examples which others might follow and which would strengthen the experience of printing unions in dealing with technical change and capitalists' strategies of implementing such change. But rather than investing simply in order to increase competitiveness GLEB aimed

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20 GLEB, nd(a); GLC 1985.

to provide investment in accordance with the above principles. Printing co-ops were seen as potentially playing an important role in the achievement of these aims, given the right support, and thus they played a central role in the sector strategy. Certainly printing co-ops had historically been amongst the most progressive employers in the industry. One key result was that the GLC/GLEB was prepared to intervene in order to support printing co-operatives, both through provision of finance and purchasing power.

The strategy was ultimately limited by the restriction of funds available to GLEB and the abolition of the GLC in April 1986, but the role of co-operatives within the sector strategy was maintained by the activities of the LCEB and LCPA[21] (both GLEB initiatives) which retained elements of the original GLC approach.

Alternative print

A further significant effect of the widespread availability of cheap offset litho technology, with very different implications for the role of labour and trade unions both within the industry and generally was the emergence of the alternative press in the late 1960s. Many underground and alternative publications were established (*International Times* and *Oz* being amongst the best known), often fuelled by anarchist and anti-establishment motives. More significant was the impetus this gave to community printshops, which developed in parallel with the alternative press. They were intent on opening up a new field of publishing outside of the establishment or mainstream, but were more interested in radical and community politics rather than the utopianism of the alternative movement. Although the underground press was vigorous for a decade or so, those parts of it which had not become politicised either faded away or became commercialised. The initiative then passed to the much more politically-oriented community presses and publishers all over the country; this movement too felt commercial pressures but also had a related clearly defined role as service agents to community, political and campaigning organisations. It was this development which formed the basis for the emergence of printing co-operatives in the 1970s and 1980s.

21 London Co-op Printers Association

Co-operatives in printing

The printing industry is one where co-operatives have traditionally been active. They were prominent in the co-operative movement in the nineteenth century, and although these older co-operatives have been subject to general decline in the twentieth century, three of the seven CPF co-ops remaining in 1986 were in printing. When the resurgence of workers co-operatives began in the 1970s, printing co-operatives were present from the beginning. The growth in their numbers is shown below in Table 8.4. The combined printing and publishing sector is now the largest area of co-op activity in production in Britain.

Table 8.4 Formations of printing co-ops

Year	*No.*	*% of all formations*
pre-1977	5	..
1977	5	16
1978	5	7
1979	6	13
1980	6	9
1981	5	7
1982	5	4
1983	6	3
1984	15	7
1985	13	6
1986	11	5
Total	82	6

Source: LICOM (1987); own figures

These new co-operatives frequently had an overtly political orientation, often growing from the alternative press of the 1960s and 1970s. Some were directly linked to alternative publications (e.g. Leeds Alternative Press, Rochdale Alternative Press), or more generally to the initiative to establish a free and open press, from which they derived their names as well as their orientation (Manchester Free Press, Tyneside Free Press, Cambridge Free Press). Many of these printing co-ops were, and still are, specifically oriented to working for community groups, campaigning organisations, political groups, charities, and later, local authority work.

This overt political orientation of printing co-operatives is not new. One of the early CPF co-operatives was Leicester Printers, founded in 1887. It was established as a joint initiative between local trades unions and consumer co-operatives - who supplied the bulk of starting capital and orders in the early stages - with one objective being to draw the trade union and co-operative movements closer together[22]. It was still operating in 1987 with 50 workers and a turnover of over £1 million a year[23] (making it relatively large by printing industry standards)[24]. Another printing co-op, Blackfriars Press, was established in 1916 with close links to the Independent Labour Party; indeed, only ILP members were eligible to join the co-op[25].

The Webbs found similar examples in France. They commented that the majority of French co-operatives "had become favourites of .... the more conservative-minded economists and political thinkers .... their members hold aloof from, and to a large extent are avowedly hostile to, the French Socialist Party .... [and] have apparently little connection with French Trade Unionism"[26]. But this was less often the case in printing; there was "*L'Emancipation*, a strictly communist printing society .... its members are all trade unionists ... they divide among themselves, over and above their wages at the trade union rate, none of the profits, which .... go either to the reserve fund or to collective objects of a social kind." They also noted another successful printing co-operative "*L'Union Typographique de Villeneuve St. Georges*, founded in 1906 out of the movement for the nine hours day by five compositors"[27].

Co-ops emerged during a period of major change in the industry towards the end of the 19th century, as the extension of capitalist control over the industry in the 19th century intensified class conflict. This conflict was most severe over attempts by capital to wrest control of production from male craft workers and deskill their positions.

Unlike trade union in many industries in the early 20th century, those in printing did not call for nationalisation or socialisation of the industry. Unemployment in printing was much lower than in other industries in the inter-war period, and Child considers that there was a tacit agreement between unions and capitalists that private ownership would continue[28].

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22 *Oakeshott, 1978; Kirkham, 1971.*
23 *Annual return to Registrar of Friendly Societies*
24 *Although it was finally taken over by a capitalist firm in 1988.*
25 *Blackfriars Press rulebook, Registry of Friendly Societies.*
26 *Webb S & B, 1914, p. 7.*
27 *Ibid, p. 7*
28 *Child, 1967, p. 237.*

This had not always been the case. In the late 19th century there had been attempts by local branches to swing the unions behind support for the establishment of producer co-operatives:

> Sooner or later we shall have all trades becoming co-operative producers. There will come a day .... when we shall do without the capitalist altogether, and we shall reap the just reward of our labour.[29]

Child continues:

> But in 1890 there were only four producers' co-operatives in the industry, at Manchester, Leicester, Edinburgh and London. By far the most important was the Manchester Society, established in 1869. Its workshops were models of hygiene, safety and comfort for the workers, and trade union negotiators frequently referred to them as models for other employers to emulate. The Society encouraged its members to join the appropriate union, always paid union rates, observed union conditions and pioneered shorter hours. About 1900 it introduced the forty-eight hour week. During the long negotiations for shorter hours in the printing industry in the early twentieth century, the example of the Manchester Co-operative Society was often cited approvingly by the unions. .... [However,] the unions generally gave little encouragement to the co-operative producers' movement. They feared that the co-operative 'workers' would develop an 'employer' outlook, and lose their interest in unionism. The T.A. went so far as investing several thousand pounds in loan or share capital of some half dozen printing co-operatives, but none of the others gave even this much support[30].

Nevertheless printing co-ops formed an important element of the producer co-op sector in the early 20th century. In 1920 there were nineteen in printing, out of seventy-two for the whole of industry. The affinity between co-operatives and the printing industry is unsurprising. Printing is predominantly a trade of craft workers (although this is now changing) with a strong tradition of collective organisation, centered on the union 'chapel' (or branch) within the workplace. The allocation of craft work to unemployed workers in the industry has been controlled by trade societies and trade unions through the 'call-list' since the earliest days. Harris points out that certain features of TU chapels in the printing industry mirror the organisation of co-operatives. In particular these are:

- autonomy and self-administration;
- the importance of voting and democratic decision-making;

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29 *Typographical Association, Report of Delegate Meeting, 1889*, p. 58 (quoted in Child, 1967, p. 237).
30 Child, 1967, p. 238.

• the original function of the chapel as the focus of worker-organised job design and work allocation, the prerogative of workers rather than management;

• the role of the chapel in legitimating new recruitment and training of apprentices[31].

A second important factor is the predominance of small firms in the printing industry, particularly in general printing. The figures quoted in the previous section on the industry as a whole show this quite clearly, and co-operatives are not particularly small by industry standards. The average size of a NGA chapel in London is six members[32], and the median size of a printing firm is certainly below nine workers. The result of this is that the tendency of co-operatives to be small is not a competitive disadvantage in the printing industry (although of course other factors - such as underfinancing - may be).

I have noted earlier that the predominance of small firms and relative ease of entry for co-operatives have been aided by technical change - in particular the development of offset litho and computer typesetting - which have served to make it easier and cheaper for small firms (and co-operatives) to be set up. While in many cases this has been used by capital to undermine the power of labour (particularly through in-house and instant printing), the same changes are widening access to print, and they facilitated the emergence of the alternative press. Marshall points out that in commercial terms there are now widespread opportunities for small to medium-sized printers and publishers; the problems arise when trying to break into distribution monopolies. He continues

> It is this double-edged nature of new communications technology which makes it very difficult to simply say that new technology is bad technology. The possibilities for increasing media access and democracy are enormous, nationally and internationally. But such possibilities exist against a background of increasing capital concentration and market control of print and other media by transnational companies whose policies of profit and power militate directly against any beneficial applications of the technologies. It is not enough to ask "What will the new system do?" More important is "Who will control it?"[33]

This is of direct relevance to co-operatives. Not only do they have the potential for democratic organisation within the workplace, but in printing (and associated publishing) there is the additional potential for contributing to working class expression and organisation through open media access. Marshall's qualification is of crucial importance,

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31 M.Harris, 1985.
32 Ibid.
33 Marshall, 1983, p. 64.

however. Are the restrictions of operating in the market such that printing co-operatives will be forced into the same mode of operation as other small printing firms - particularly when faced with competition from burgeoning high street instant print operations and all of the undermining of working conditions which they embody?

The changing nature of worker co-operatives in the 'new wave' has provided even more reason for co-operatives to be set up in printing. In contrast to the older co-ops - who adopted conventional forms of management and division of labour - the newer co-operatives have emphasised collective management and job organisation, often aiming to rotate tasks and skills. Craft workers in printing have traditionally been able to exert some measure of control over working conditions, and this has given printing co-operatives some flexibility in reorganising work on a more egalitarian basis. One consequence of labour's strong position and high degree of control has been relatively high wages for craft workers. These high wage levels have provided workers in printing co-operatives with flexibility which other co-op workers do not have. If they wish to develop alternative forms of production and the division of labour - which may result in reduced efficiency in commercial terms - printing co-op members are at least in a strong position compared to, say, workers in clothing co-ops, whose wages are so low that reductions in commercial efficiency may not be sustainable. However there are two important, related forces acting on printing co-operatives which tend to constrain attempts to reorganise and restructure production. The first is that the strength of craft workers is based upon control over recruitment, and co-operatives' attempts to sustain 'open' membership policies and to demystify skills and technology may undermine craft status; this can sour relations with the print unions, in an industry where (in many sectors at least) union influence over the allocation of work is very strong. Secondly, there is the general point that the trade union movement does not acknowledge the legitimacy of wage levels in co-operatives undermining established union rates, even if associated with other gains (see chapter 5).

Printing co-operatives - commercial performance

While the number of printing co-operatives has been growing steadily, the increase in output has been even more impressive. Total output has grown from £0.52m in 1980 (with

10 co-ops) to £3.2m in 1984 (with 24 co-ops) and an estimated £6.3m in 1986 (26 co-ops)[34]. This growth has resulted from the rapid expansion of existing co-ops as well as the establishment of new ones, and has undoubtedly been aided by the expansion of the co-op sector in general and the rapid growth of the printing industry in 1983-6; these co-ops entered the industry without having to go through the restructuring process which dominated the industry earlier, and were well placed to take advantage of demand growth following 1983. Although growth has been impressive, however, the total output of printing co-ops remains miniscule in relation to the printing industry. Even when compared to the general printing subsector, co-ops produce perhaps 0.1% of total output, and with total output of £6m and employment of 150, are collectively the equivalent of only one large printing firm.

Comparative results for the printing co-op sector are reported in chapter 7. Two factors are immediately obvious from these. Firstly, the commercial performance of printing co-operatives is significantly worse than that of small capitalist printing firms[35]. That is, wages are lower, gross output and value added per worker are lower; value added makes up a lower proportion of output, and, despite wages being lower they take up a higher proportion of gross output. The low level of wages, output and value added per worker reflects the insecure commercial position which co-operatives hold in a capitalist economy. The high proportion of wages paid out in value added indicates that low wages are not paid out of 'choice' - indeed co-ops are probably paying as much (or even more than) they can afford in wages commensurate with the retention of a surplus sufficient to meet payments due to capital (interest), the claims of the state (tax), and the maintenance of a sufficient stock of the means of production to enable the co-ops continued operation (depreciation and capital expenditure). This consistently high claim of wages is due to the relatively poor commercial performance of co-operatives; this poor performance itself could have several explanations: underfinancing, some inherent 'inefficiency' of co-operatives, or the pursuit of objectives which run counter to commercial ones. These have been explored earlier. At this point it is important to note that if co-ops are underfinanced, low surplus retained will exacerbate this situation and any consequent poor performance, thus reinforcing a vicious

34 These figures refer to co-ops for which some kind of financial data is available, and so the number of co-ops may not agree with Table 7.1. For later years (1984-86) estimates have been made or data obtained directly from co-ops on turnover over and above the results reported in chapter 7 on the printing sector based on Companies House/RFS returns.

35 See notes on the comparability of data in appendix 6.

circle unless it can be somehow broken; underfinancing certainly is a potential cause of the low labour productivity exhibited in low output and value added per worker.

Secondly, the relative performance of co-operatives has improved consistently over time. This suggests that the position of co-ops is, in part at least, due to their relative youth compared to capitalist firms[36]. Initial problems of underfinancing may have been alleviated over time. The consistent improvement in the position of co-operatives suggests that, if continued, within 5 years or so it could equal the performance of comparable capitalist printing firms.

In absolute terms, however, the performance of printing co-operatives has been superior to the clothing and retail wholefood sectors, despite being poor relative to printing industry levels. Thus, although wages in printing co-ops are in general below industry levels, they are high in co-op terms - and improving. In order to explain and understand this, we can first look at print co-ops' market relationships.

Printing co-operatives and markets

Pressures towards degeneration for co-operatives are transmitted through market relationships, and the particular nature of market relationships for printing co-ops is an essential factor in explaining their success in co-op terms. For many, the link to a specific market is crucial. Often print co-ops grew out of the 'alternative print' movement and retain links to community publishers. The provision of printing services to political and community groups, trade unions, charities and local authorities provides a major element of printing co-op work. Others are closely associated with alternative newspapers, which provides a stable base market for the co-op.[37] Given the ideological position of printing co-operatives they frequently prefer to deal with these customers rather than straightforward commercial customers; some co-ops will also refuse to handle sexist or racist material, and this is less likely to be supplied to them by these broadly 'political' customers. In addition many such customers prefer to deal with a co-operative rather than a capitalist printing firm, and there is an amount of market segmentation at this community and political end of the printing industry, from which co-ops benefit.

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36 This argument can be overstated. Data presented in the chapter 5 suggests that probably 1/3 of all co-ops and small firms disappear within 3 years of formation, both should be considered to be 'mature' (i.e. post start-up stage) by the age of 3 or 4.

37 e.g. Leeds Alternative Press/Leeds Other Paper; Rochdale Alternative Press/Rochdale's Alternative Paper.

Printing co-ops are sheltered from the full force of direct competition with capitalist firms, as their market does not operate solely on commercial criteria. However, this market is limited and in danger of becoming saturated by the rapid growth of the printing co-op sector. The situation was eased by the emergence of radical local authorities and 'municipal socialism' in the early 1980s; co-ops benefited when these authorities used criteria derived from their social wider policies in addition to commercial criteria when allocating contracts[38]. Similarly the expansion of the wider co-operative sector itself generated work for printing co-ops. Although the extent of inter-trading is limited, there have been numerous examples of co-operatives and support organisations specifically giving work to printing co-operatives. More generally, the expansion of local level political and cultural activity through the early 1980s (often by groups receiving local authority funding) provided a further boost.

With the abolition of the metropolitan counties and the GLC in 1986, and legal restrictions on contract compliance and the use of non-commercial criteria in awarding contracts, local authorities will be a less important source of business for co-operatives. This is unfortunate, as the partial shielding from competitive forces has been important in enabling printing co-operatives to expand their operations so rapidly over the first half of the 1980s. The loss of this trade will exacerbate problems caused by saturation of the community print market. For instance, when Lithosphere wanted to expand in 1983/4 it did so away from its traditional customer base (which it had carried with it since days as the printing department of War on Want) and entered the market for colour video sleeves. The move away from the political market into a strictly competitive market reflected both a strong commercial as opposed to ideological strand in Lithosphere's operations[39], and the limits of the political print market.

A further attempt at intervening in the market and protecting co-ops from the adverse effects of competition has been the formation of the London Co-operative Printers Association (LCPA). This was formed in 1983 and initially comprised of London's four largest print co-operatives (Lithosphere, Spider Web, Calverts and Blackrose Press) and was initiated with funding and assistance from GLEB as part of its printing Sector Strategy[40]. Its

38 e.g. when GLEB part-funded a joint OU/GLEB publishing project, it was a condition of the agreement that the printing work be carried out by a co-operative.

39 IPP, 1987.

40 GLEB, nd(e).

aim was to replace (at least partially) competition between London's printing co-operatives with planned co-ordination, so that co-operatives

> could plan their investments to compete against each other as little as possible ... [and] ... share common marketing facilities, so that jointly they could offer a whole range of printing facilities in the same way that medium sized commercial print firms do[41].

Since its establishment the LCPA has expanded; at one time it had 11 members, but by 1987 this had been reduced to 6. This was due partly to internal disagreements between the co-operatives over strategy, and these difficulties were increased by the abolition of the GLC and effective abolition of GLEB in its original form; the LCPA is now primarily a vehicle for the joint purchasing of inputs; co-ordination of marketing and output had been relegated as an objective.

We can therefore identify the following factors which have contributed to the strong growth of printing co-operatives, in the general context of the growth of the co-operative sector.

- the relatively low cost of establishing a printing operation, especially for basic work (i.e. not high quality, high volume multi-colour work);
- a long tradition of collective organisation by skilled workers, and a high degree of control over the production process;
- continual contesting of the control of the labour process between employers and workers in the industry, with the former using technological developments to undermine workers' craft status and strong organisation;
- the historical importance of printing co-operatives within the co-operative movement;
- the opportunity for a more radical approach to the restructuring of production, in keeping with the aims of the new co-operative movement;
- the close direct links between producer and consumer, due to the bespoke nature of the printing product, enable printing co-operatives to operate in a partially segmented product market where there is some protection from competition and market forces are mediated;

41 GLC 1985, p. 30.

• favourable market conditions, with the expansion of the alternative print sector through the late 1970s and early 1980s, on top of a general increase in demand for printed material.

As a consequence, printing co-operatives are in a relatively strong commercial position and hence have some protection against tendencies to degenerate.

Objectives of printing co-operatives

The politicisation of printing co-operatives is demonstrated in the following list of their stated objectives:

1.	(+)	sharing and developing a broad range of skills
2.	(-)	providing a product or service felt to be particularly important
3.	(-)	giving members a greater opportunity to have a say in managing the enterprise
4.	(=)	increasing employment in the co-operative
5.	(=)	re-organising in a different manner to that which might be expected in a typical company
6.	(+)	maximising the level of wages and bonuses
7.	(-)	maximising job security for existing workers
8.	(+)	maximising profitability and efficiency
9.	(+)	providing a service to a particular special group within the community
10.	(+)	rotating workers between a variety of jobs
11.	(+)	participating in the wider labour movement
12.	(-)	other
[13.	(-)	increasing the involvement with the wider co-operative movement]*

* no replies supporting this objective.

(+), (-), (=) denotes the relative importance of each reply in the printing co-operative sector compared to co-operatives as a whole; e.g. (+) means that more printing co-operatives gave this answer than the average.

Source: Co-op survey

There are four conclusions to be drawn from these results. Firstly, great importance is attached to extending printing skills beyond the normal restrictions of a white male craft; combined with further objectives of participation in running the business, job rotation and reorganising work along non-capitalist lines, it appears that print co-ops are particularly concerned with developing the labour process in the industry along alternative lines to that in capitalist firms. Secondly, productivity and efficiency objectives rate fairly low, although they appear to be more important than in the co-op sector as a whole. Thirdly, links to particular markets are important; this can be either through the specific nature of the market, such as servicing a particular group, or the nature of the product provided to that market. Finally, although external non-business links are limited and of generally a low priority for all co-ops, in printing co-ops links to the labour movement are of relatively greater importance than those to the co-operative movement; in fact no print co-ops rated links with the co-operative movement as an important objective. This finding supports the view that workers in printing co-operatives are more politicised than co-op workers generally, and reflects the nature of class organisation within the industry.

Relationship with trade unions

This politicisation both reflects and is reflected in a high level of unionisation within printing co-operatives. Of 20 print co-ops responding to the questionnaire, only one had no union members. The NGA was represented in 13 of the co-ops and SOGAT '82 in 7.[42] These 18 co-operatives had between them over 100 members of the two print unions. Harris found similar results in London, where 3 out of 14 print co-ops examined were non-unionised; one of these was very new and one other was a quasi - co-op, a co-op partnership which has more in common with the 'instant print' trade than the rest of the printing co-operative sector. Certainly printing co-ops have a much higher level of unionisation than the British worker co-operative sector as a whole[43].

There are several reasons for unionisation. First there is the general political commitment of print co-ops to the trade union movement. Second, the strong position of print unions and their ability to boycott work from non-union shops means that in many parts of the industry union membership, and the consequent obligation to meet union rates and conditions of work, is essential for firms to secure work. Third, some co-ops aim to change the more reactionary elements of trades union policy from within. Finally, it has often been a condition of local authority funding (notably with GLEB) that a co-op is unionised. For these reasons, the concern of trade unions earlier this century that workers in printing co-ops would lose interest in unionism has not been borne out in practice.

The relationship between co-ops and trade unions has been varied, with many aspects different to it. As noted earlier, there are elements which both co-operatives and print trade union chapels have in common, but there are also strains on the relationship. Many print co-operatives see it as a major objective to not only bring women and/or black workers into

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42 Some co-ops had members of both unions.

43 see chapter 5, Table 5.8.

skilled trades, but into the white male dominated trades unions as well. Co-ops which have policies of giving priority to employment of women and black workers have run into opposition from the unions, as this clashes with the latters' control of labour recruitment in the industry. Conventionally, print unions allocate workers into vacancies from the 'callbook', or list of its unemployed members; if a vacancy arises in a unionised firm the union allocates the job in rotation to the next appropriate member on the callbook. Given that the unions, and hence the callbook, are dominated by white males, this practice conflicts with some co-ops' policies of positively recruiting women and black workers into the trade. Furthermore, commitment by co-operatives to rotate workers between skills and demystifying the trade could undermine the status of craft status and differentials. As a result such co-ops see changing the print unions from within - perhaps inducing them to make exceptions to recruitment policy in the case of progressive enterprises such as co-operatives - as an essential aspect of their trade union membership. The difficulties of this task should not be underestimated. Print co-operatives are tiny in industry terms and do not yet have significant weight within unions. Secondly, the unions have fought bitterly in the past to exclude women from craft positions, and associated attitudes are entrenched[44].

As second point of conflict is the wages issue. There is general concern in the trade union movement that co-ops will undermine established wage rates, and this is perhaps even stronger in the printing industry. Many co-ops - especially in the early days - pay low wages in an attempt to become viable, typified by those with 'undercapitalised' start ups. Print unions in particular are opposed to low wage labour entering the market, as it undermines their ability to 'fine tune' wages through the control of labour supply from unemployed members via the call-book. Certainly the low level of wages in some print co-ops offers grounds for concern. Even in co-ops which pay at or around the union rate, there still exists the potential for undermining pay rates by unregulated hours of work. The working of hours in excess of the basic working week[45] by co-op workers (often unpaid) is widespread.

The reasons for unionisation in printing co-operatives are varied; those given include the following:

44 Marshall, 1983; Cockburn, 1983.
45 The NGA ceiling is 37.5 hours.

• protecting workers' interests within the co-operative	3
• in order to obtain work / closed shop	6
• general solidarity with the trade union movement	18
(total = 19 co-operatives)	
Source: Co-op survey	

The strongly politicised nature of the co-operatives is manifested in the desire to change some union practices and to build general links and solidarity. Only 1 out of 19 unionised printing co-operatives did not state general solidarity as an objective. Although 6 of the 19 stated that part of their reason for unionisation was its necessity in obtaining work, only 1 of these did not also support solidarity.

The low importance given to the role of unions within co-operatives is surprising, and suggests an idealised conception of co-operatives' internal organisation. Harris[46] has given this issue some attention in printing co-operatives. He suggests that the union chapel provides an important alternative source of decision making within the co-operative, and also that the workers implicitly agree to use the union as 'an external arbiter and reference point', on issues such as wages and hours of work.

> The chapel appears to form a structural link with the larger union body and an alternative source of authority not only on wages, but also because it can call upon external arbitration in time of dispute. As a form of workplace representation, the chapel forms an alternative system of decision-making which is democratic and participative in nature and which could be seen as forming an appendage to the main decision-making system of voting in the co-operative[47].

The is an apparent contrast between my results and those of Harris: he finds the issue of workplace representation to be much more important. There are two possible explanations for this. Firstly, Harris considered only fully-unionised co-operatives, whereas the questionnaire results include all co-ops with a union presence. Secondly, it is likely that the use of the union as an external reference point is actually considered as solidarity - maintaining union rates etc - rather than as protecting workers' interests. The latter is more likely to be narrowly interpreted as the union's role during a dispute, and while expansion has been so rapid there have been very few instances where co-operatives have attempted

46 *Harris, 1985.*
47 *ibid., p. 34-5.*

to make workers redundant; in addition, the small size of most printing co-ops has meant that other disputes could generally be solved within co-operative meetings rather than needing external arbitration.

Printing co-operatives in France

A comparative exercise has been carried out for co-operatives and capitalist firms in the printing sector in France by Defourny[48]. The French co-operative sector is both larger and longer established than that in Britain, but like here there is a concentration of co-operatives is in printing. Defourny's results contrast with those above, although they may reflect the likely state of British printing co-operatives in perhaps ten years' time. His main findings were as follows:

- *Gross output per head*: significantly lower in co-ops than capitalist firms, with the relative position poorer in smaller co-operatives, worsening from 1971 to 1979.
- *Gross value added per head*: lower in small co-operatives than small capitalist firms, but with a smaller differential than for gross output; generally higher in large co-ops than large firms, but as with the above, the relative position of co-ops deteriorating over time.

The combination of the two results above means that:

- *Gross value added/gross output*: consistently and significantly higher in co-operatives, indicating that co-ops are more productive.
- *Wages per head*: slightly lower in small co-ops than small firms, slightly higher in large co-ops, but no major difference overall.
- *Wages/gross value added*: marginally higher in co-ops.

Together these results suggest that French printing co-operatives have a much lower level of output or turnover per worker than comparable capitalist firms, but that co-op workers are more productive in their use of material inputs and capital equipment than their counterparts in capitalist firms; this contrasts with the situation in British printing co-ops, where both turnover and value added are lower than in comparable capitalist firms.

Defourny also presents data on the capital intensity of co-ops and capitalist firms. He finds that co-ops are relatively undercapitalised, but use their limited capital assets more

48 Defourny, 1986.

productively than do capitalist firms. Beyond this his conclusions were different for co-ops of small (1-9 workers) and intermediate (10-99) sizes. For small co-ops, he finds that they are undercapitalised and more labour intensive than their capitalist counterparts, and that this leads to lower value added with the effect felt in low wages. The high proportion of value added paid out in wages restricts the surplus available for reinvestment, and they appear unable to break out of the low wage/low value added/low investment circle. That is, small co-ops appear unable to accumulate. He notes that in printing a much higher level of investment is required to keep up with technical change compared to building and construction, the other sector examined.

Once co-ops reach the intermediate category - particularly for those with 25-40 workers, he claims that they pass a crucial threshold of economic performance and follow a different pattern. Although undercapitalised and labour intensive, they are very productive in their use of means of production, with lower overheads, and as a result achieve both a higher level of gross value added and wages per worker than capitalist firms while retaining a sufficient surplus for investment. He concludes that around this size the improved economic efficiency of collective ownership and a participative organisation fits best with the demands of a competitive economy. Unfortunately Defourny does not examine how small co-ops grow into medium-sized ones., nor does he interpret the commercial performance of French co-operatives in terms of their other achievements or the historical development of the French co-op sector.

In view of Defourny's findings on the relative undercapitalisation of French printing co-operatives, a similar analysis is needed for those in Britain. Unfortunately comparative figures for the capital intensity of printing firms in Britain are not provided in the Census of Production (which presents only 'flow' and not 'stock' variables). However there is an alternative source which provides indicative (but not strictly comparable) figures for printing firms[49]. For these 'intermediate' printers, the level of fixed assets per head ranged from £1000 to £75000 in 1984, with a median of £6700. The ratio of gross output to fixed assets varies from 0.8 to 32.1, with a median of 3.8.

The results in chapter 7 showed that the level of fixed assets per worker had been increasing in printing co-ops, although it is still much lower that the figure for capitalist firms above.

49 ICC, 1986. This provides extensive ratio analysis of the business performance of 100 companies in the 'intermediate' classification (turnover £700,000 to £6m).

Table 8.5 (at the end of this chapter) gives results for both individual printing co-ops and the whole sector; in 1984 the median level was £2130. The ratio of value added to fixed assets, by contrast, had not shown any increase, never rising above 2, and with a 1984 median of 1.18. This is much lower than in French co-ops, where it is generally around 5.0. British co-operatives therefore appear to make less productive use of assets than capitalist printing firms and much less than French co-operatives.

The French situation therefore contrasts significantly with that of Britain. Defourny reports that French printing co-operatives are more productive in this area than capitalist firms, while British ones are much less so.

This finding is echoed by Thornley, who notes that there are sufficient printing co-ops in France (about 75) to have formed their own federation, one of whose crucial roles is to negotiate with banks on behalf of co-ops[50]. Like Britain, many print co-ops survive on work from the sympathetic labour movement; they have also been concerned with internal organisation and tend to promote managers from the shopfloor and have avoided hierarchical practices brought in from outside (although this is in the context of the general acceptance of a conventional managerial role in French co-ops, unlike in Britain where this is still very much a live issue). Also, wage differentials are generally low, but unlike British co-ops they pay better wages than in the industry as a whole.

Both French and British printing co-operatives appear to be undercapitalised. In France this is associated with a higher level of technical efficiency than in capitalist firms, which compensates for undercapitalisation. As a result wages in French printing co-operatives are comparable with those ruling in capitalist firms, particularly in larger co-ops.

In Britain co-operatives are faced with undercapitalisation *and* lower levels of technical efficiency, and so overall have not yet managed to bring wages up to industry levels. In his article Defourny suggests that some French printing co-operatives have broken out of the low accumulation vicious circle afflicting small co-operatives, and that the position of medium-sized co-operatives is relatively easy to sustain. This raises the question of whether British co-operatives are likely to follow the same path; is the French situation simply the result of co-ops being longer established than in Britain? Certainly some British co-ops are now moving into the medium-sized category (more than 10 workers), but only one is in

50 Thornley, 1981, p. 148.

Defourny's most productive size category of 25-40 workers. By analysing the results for individual co-operatives we can see the paths taken by these growing co-operatives and use this to contribute to an explanation for the different experiences.

THE EXPERIENCE OF INDIVIDUAL CO-OPERATIVES

So far attention has largely been concentrated upon the experiences of individual co-op sectors and the average performance of co-ops within those sectors. I now turn to individual co-operatives, and examine some of their contrasting experiences. These cover a wide spectrum, and are influenced both by the material circumstances in which co-ops operate and decisions taken by co-op workers on dealing with the contradictions facing them. Material circumstances cover a range of factors, including the nature of market relationships and production relationships, the degree of financing available, and the type of origin (new start, rescue, or conversion). These factors affect both the commercial performance of co-ops and the ability to secure other gains for workers.

Within an individual industry, such as printing, market relationships and the nature of production within the sector will tend to be similar across co-ops. Other factors will vary, as will the way in which co-op workers deal with contradictions. In addition, co-op development is a dynamic process, and crucial issues will vary over time, with the size of co-ops, and the external economic and political environment which they face.

The remainder of this chapter is devoted to an examination of the contrasting experiences of individual printing co-ops, facing different start-up conditions and with a variety of attempts to deal with the problems of survival.

Feminist printing co-ops

Part of the motivation in the establishment of many printing co-ops has been opposition to the male domination of the 'skilled' printing trades. At the same time, new co-ops generally have frequently been opposed to sexism in employment and society. Combining these two strands have been a number of printing co-ops with a strong feminist stance, such as Sheffield Women's Printing Co-op, and Amazon Press. They have a commitment to political rather than commercial aims: opening up printing skills to women in a male-dominated profession; job rotation and a demystification of printing skills; and contributing to wider struggles through support of feminist groups and advising customers (particularly womens' groups) on their printing needs.

Most of these co-ops have been characterised by relatively poor commercial performance, and indeed they are representative of a wider group of radical and commercially marginal co-ops (such as Cambridge Free Press). Turnover and value added per head are low, and the relatively high burden of fixed costs means that the surplus generated is small in both absolute terms and as a proportion of output. Wages are low, and despite this the total wage bill in many cases is larger than the surplus generated, leading to an operating deficit. As a result these co-ops have remained in a static position, with low accumulation and growth[51].

This is not surprising. Many objectives conflict with the need to survive commercially, and this is exacerbated by initial weakness due to lack of access to skills and finance. Such a starting point generates a need for 'sweat equity' (or alternatively 'collective exploitation') in order to accumulate and ensure long-term commercial survival. However the strong commitment to non-commercial objectives makes this difficult, and the outcome is manifested in low or even negative accumulation.

Such co-ops clearly cannot hope to survive unaided for any length of time in a competitive capitalist environment. They may need ongoing subsidy or grants to meet trading deficits, and almost certainly would be unable to raise finance commercially for investment in the means of production in order to expand their operations; this may reinforce a reluctance on the part of workers to approach banks, fearing a loss of independence. Even paying low wages, their capacity to expand through 'sweat equity' is limited.

Given that commercial sources of finance are not readily available, such co-ops have three main avenues for raising finance - members, sympathisers and local authorities. The first tends to be very limited; very few co-operative members have extensive resources either to lend directly or to use as security for external loans. Many feminist co-ops have raised funds from sympathisers, usually in the form of donations, although there are other ways; Amazon Press for instance raised £1500 through the issue of debentures to sympathisers. In general these 'sympathetic' sources of funds are limited, and support of this kind is probably more important in terms of providing a semi-protected market for the co-operatives products. Ultimately these co-operatives become reliant on local authority

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51 see table 6.5

funding for their survival. Most of the printing co-ops in this category have received local authority funding (directly, or indirectly through CDAs) at some time. Often this is revenue support, meeting trading deficits, but this does little more than keep the co-operative going at the same level. Without this support most such co-ops would collapse, as was the fate of Rye Express. In the mid-1980s the situation facing these co-ops changed as sympathetic local authorities were prepared to make finance available on the basis of non-commercial criteria, supporting them specifically as womens' initiatives. Several womens' printing co-ops received local authority funding (loans and/or grants) which enabled them to purchase new equipment, cover past deficits and expand output. A city council loan of £10,000 assisted Sheffield Womens Printing Co-operative to expand output from £20,000 in 1982 to £46,000 in 1985, whilst a GLC loan of £8,000 assisted Women in Print to expand from £9,000 in 1982 to £30,000 in 1985. Obtaining such support is the key to escaping from the problems of low wages and shortage of capital equipment, whilst still maintaining other objectives.

Because of the relatively high political profile of print co-operatives such support is easier to obtain in the industry than would perhaps be the case elsewhere. The highly political nature of the product - bespoke to customers' requirements and reflect the nature of those customers - means that feminist print co-ops can maintain a high political profile both through their attack on the male domination of the trade *and* on the offensive nature of much printed material.

Although these co-operatives face difficulties in achieving high levels of commercial performance, their small size does have advantages in attempts to reorganise the labour process. There are two aspects to this. The first is the recruitment of women and black workers into conventionally white male positions. The second is actually changing the division of labour; attempting to break down the conventional division of jobs into skilled/unskilled, manual/intellectual work. Small print co-ops in particular have placed great importance on the commitment to skills exchange and have had some success at implementing this, with high degrees of job rotation. Because of this, some co-ops have taken a positive decision *not* to expand past a point where these objectives can be maintained.

'Sweat equity' co-ops

The problems of underfinancing are not restricted to feminist printing co-ops, but affect the majority of new starts. Frequently these would also be considered 'alternative' co-ops, with political or non-commercial objectives. However, they tend to be more committed to growth and also face a need to achieve this on the basis of internal accumulation. They have been referred to as 'shoestring' co-ops[52].

In terms of commercial performance they start off at low levels of output and value added per head, but demonstrate gradual increases over time. Increasing productivity permits slow accumulation and expansion, with low but increasing wages. Although these co-ops grow from small starts, they mostly remain with less than 10 workers. There is initial dependence upon private sources and members' funds, and where public sources are available this can reduce the extent of 'sweat equity' required for successful establishment as independent enterprises. Later they do stand some chance of securing commercial funds, although this may not be welcomed. As in feminist co-ops, survival is achieved on the basis of high levels of worker commitment.

The process and results of growth can affect the achievement of political objectives in such co-ops, raising different problems to those faced by smaller co-ops. In medium sized co-ops the objective of restructuring the labour process is less easy to implement, and in any case attitudes to job rotation and skill sharing vary with the political orientations of co-operatives. Where skill sharing is adopted it is likely to detract from commercial performance if pursued extensively. This is illustrated by the example of Flypress, a unionised London print co-operative with 9 workers, who

> displayed a high level of commitment to participation. Flypress operates a keyworker system in which task areas corresponding to the various parts of the production process are delegated to pairs of fully trained 'keyworkers'. Tasks are rotated in such a way that at least one keyworker remains in the task area while a worker from another task area is able to leave his or her own task area in order to learn new skills. This system of job rotation reflects the commitment to skills sharing at Flypress, and in theory the system could extend to even the most specialised tasks. In a co-operative of this size however, the extent of job rotation is likely to affect productivity levels and the relatively low [wage] rate which Flypress pays may reflect this.[53]

52 Cornforth et al, 1988.
53 Harris, 1985, p. 39.

This attitude is not universal. The original LCPA co-operatives tend to place emphasis on management accountability rather than direct participation in management as such. Thus in Calverts, an original LCPA co-operative with 13 workers, there was no policy of job rotation and traditional lines of demarcation were retained. Harris concludes that

> extensive job rotation of the sort practised by Flypress becomes untenable in co-operatives with more than about ten members. Direct participation by means of job rotation gives way to a hardening of job boundaries, especially the division between administration and production. What the evidence from Flypress (and the comparison with Calverts) suggests is that these boundaries will harden with growth whether this is seen as a political issue or not.[54]

Calverts' reasoning was related to the highly skilled nature of much printing work: they felt that extensive job rotation was incompatible with developing these skills (or at least was incompatible with developing these skills and surviving commercially). Late in 1985 Flypress obtained a loan from LCEB for new machinery and expansion, and this contributed to a change in policy, if not objectives. The technological complexity of the new machinery, and the need to develop expertise in areas such as marketing led to a decline in job rotation and increasing specialisation. this has enabled an increase in wages to union rates.

Managing the division of labour: the price of success?

Some printing co-ops have far fewer problems with initial financing, and demonstrate commercial performance which improves rapidly and soon compares well with that achieved generally in the industry; examples are Lithosphere, Blackrose Press, and Spider Web. Several such co-ops are conversions from already-existing operations: Spider Web was a conversion from a share company, and Lithosphere originated as the print department of the radical charity War on Want. This contrasts with the new-start origins of most other printing co-ops. These co-ops have used commercial finance extensively, although with some additional public sector financing.

Large co-ops generally face different problems as a result of both absolute size and the commercial orientation necessary to achieve growth. On the division of labour issue, the existence of a separate management function tends to be seen as a fact of life rather than as a contentious issue in large printing co-operatives. Associated with this is a limited or non-existent commitment to skill transfer, and ultimately the introduction of a form of representative participation and indirect management accountability. The problematic

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54 ibid., p. 40

relationship between growth, commercial success and co-operative ideals is manifested in the experience of Lithosphere, the largest of the new printing co-operatives in Britain.

Lithosphere was originally the printing department of War on Want. By the late 1970s outside work accounted for 55% of its turnover and it was judged to be a commercial enterprise by the charity commissioners, who ordered it to be separated from the charity. In 1980 the printing operation - including machinery, orderbook and goodwill - was sold to the employees, who established it as a workers co-operative. The price of £38,000 was met by a loan from War on Want and the workers redundancy money.

Since 1980 Lithosphere has grown rapidly, expanding turnover from £131,000 in 1981 to £535,000 in 1984 and £900,000 in 1987. Over the same period the workforce expanded from 8 to 28. By commercial criteria it is by far the most successful of printing co-operatives, and is also successful in industry terms (see Table 8.5). Productivity and wages are close to industry averages; a printing industry consultant reported in 1985 that "the co-operative's present performance is good by industry standards, but the recent investments have not yet realised their potential and could be used more effectively."[55]

Lithosphere maintained its political customer base inherited from its days at War on Want, but recent expansion has been into the arts and media market. Integral to its expansion was the purchase of a four colour press (the first printing co-operative to do so), made possible by a £200,000 loan from GLEB in 1984[56]. The co-operative was also a founder member of the LCPA. Expansion and success have brought problems however, partly due to the difficulties associated with maintaining democratic participation in a co-operative with more than 20 people, but also due to clashes between commercial and political objectives.

Lithosphere is committed to growth, and could continue to expand in the way that it has until now. However, a comparable capitalist firm would be in a position to expand through taking over other firms. It is through this process - centralisation of capital - that capitalist firms accumulate most rapidly; this is not just because of the rapid increases in the size of individual firms involved, but because such takeovers would generally involve a restructuring of one or both of the enterprises involved to enable greater profitability and accumulation. Lithosphere are now attempting to expand in this way, and recently made an

55 British Printing Industries Federation consultant, reported in IPP, 1987, p. 79.

56 Although the co-op was almost certainly in a position where the funds could have been raised commercially should this have been desired.

abortive attempt to take over an ailing CPF co-operative, Leicester Printers (LP). There were several attractions for the Lithosphere. Firstly, LP had recently purchased modern equipment; secondly, it is a long established operation with a substantial customer base, and with a larger workforce and turnover than Lithosphere itself. In the end, agreement could not be reached between Lithosphere and the unions at LP, and LP was taken over by a local capitalist. Although both co-ops agreed that redundancies would be required in the merged operation, they could not reach agreement on the way in which these would be imposed. This episode reinforces shows again the consequences of a commercially oriented strategy, and that even co-ops cannot avoid the economic imperatives of operating in a capitalist market.

The issue of participation, and the role and nature of management authority, has been of fundamental importance to the co-operative while expanding. Although there has not been a formal policy of job rotation, there has been an openness towards the sharing of skills and a tendency not to formalise roles, particularly in management and administration. In the larger co-operative this led to problems with achieving the efficiency required to meet commercial objectives, and the chosen response was to formalise management roles. At the same time it was decided to replace direct participation in decision making with delegated responsibility, subject to a monthly meeting of all workers. The new structure involved organising the co-operative into six departments, each with a departmental head who would meet weekly and who had the capacity to take substantive decisions without referral to the monthly meeting.

Any co-operative (or indeed any collective organisation) has a hierarchy which is covert if not formalised[57]. In Lithosphere these changes reinforced the existing hierarchy in three ways. Firstly, the older and more experienced members (including some founder members), who were all white males, tended to be in management and administrative jobs, which reinforced their already dominant position through access to and control of information. Secondly, the introduction of departmental *heads* rather than *representatives* added an extra layer to the hierarchy and in particular made collective organisation within departments much more difficult. Finally, the co-operative took part in the Icom Pilot Project (IPP) training programme, which was specifically oriented towards finding an organisational and management structure(s) for large co-ops which did not entail abandoning co-operative

57 *Landry et al, 1985.*

principles. This was particularly suitable for Lithosphere given the changes it was going through, but in practice involvement and interest was restricted to the senior members. The problem was recognised by the IPP organisers:

> The focus of the programme was on training for the senior workers who needed to strengthen their business management and technical skills and take the lead both in developing an organisational structure appropriate to the co-op's new needs and in clarifying the long term objectives. This did not help to improve communications between the senior and some of the non-senior and non-member staff and the IPP had relatively little direct effect on these workers due to their lack of involvement[58].

Although the IPP programme did have some beneficial effects for Lithosphere, it did reinforce existing divisions and produced little to assist tackling them.

The difficulties caused by these changes were most extreme in the relationship between the typesetting department and the rest of the co-operative. This department was established four years after the co-operative itself, and was staffed solely by women. Many of them had come from smaller, more radical printing co-operatives, and when Lithosphere was reorganised the typesetters took an alternative approach, preferring to run their department collectively without an identified senior worker. This position was unpopular with the other departments, who lacked an identifiable person to make contact with at the weekly meetings of senior workers.

This clash was accentuated by the lack of integration of the typesetting department into the co-operative. The women had all joined when the entire typesetting department was being restaffed, and there was no continuity of personnel in the department to facilitate this process. Furthermore, Lithosphere has a year-long probationary period before workers are eligible for membership, and this meant that the women felt unable to fully participate in decision-making. In addition

> The fact that they were the only women in Lithosphere working directly in a printing-related job in a predominantly male profession also added to their feelings of isolation. Lithosphere's senior members liked to see themselves as pragmatic, democratic egalitarians, but the typesetters saw them as a bastion of white male power, resulting in a [continuing] clash of ideology.[59]

The male senior members had always been commercially rather than ideologically inclined. This led to further persistent clashes - feminist collectivity versus a more traditional

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58 IPP, 1987, p. 81.

59 Ibid., p. 84, and my own interviews as part of the IPP Evaluation Programme.

management structure and feminist political ideals versus commercialism - which accentuated the very real problems faced by women working in a profession dominated by men. The general experience of Lithosphere is disappointing in its failure to tackle this problem, in particular the failure of the senior men to recognise that their own sexism and the sexism of the industry is a problem.

CONCLUSION

The experience of printing co-operatives holds many lessons for the wider co-operative movement. The sector has expanded rapidly, both through the formation of new co-operatives and the growth of existing ones. On the one hand there has been reasonable commercial success; although in overall terms printing co-operatives still perform less well commercially than the general printing subsector, the dramatic improvements in their average performance over the period 1980-1985 suggests that they could eventually match the performance of printing firms in general. This is reinforced by the experience of the larger printing co-operatives, which, despite being small by manufacturing industry standards, are larger than most printing firms. These co-operatives have achieved above average levels of productivity and wages, and appear to have the potential to improve this position further.

Such success is dependent on many factors. Firstly the origin of the co-operative; conversions from already existing enterprises have a great advantage, and many of the largest printing co-operatives have this origin. The advantage is that they find it much easier borrow sufficient money to purchase the machinery necessary to compete in the market. New start co-operatives face much greater difficulties in this area, and, for many, finance is not available from commercial sources; in general they can only build up sufficient resources if workers are prepared to work long hours for low wages in the early years. This process can be eased if finance is made available from local authorities or other sources who are prepared to take a broader look at co-operatives than that implied by strictly commercial criteria.

The experience of printing co-ops is in many ways a record of success. Whilst there is a conflict between the adoption of a commercial growth-oriented strategy and the pursuit of a radical restructuring of the labour process within co-ops, most of the larger ones have nevertheless achieved some form of collective self-management, and control over their own decisions. They exist as independent enterprises paying reasonable wages as well as making achievements in terms of worker control; even where printing co-operatives have not achieved a restructuring of production, workers do have more responsibility and autonomy than in capitalist firms. This still applies at Lithosphere, which despite its problems and the adoption of a hierarchical structure, remains a genuine attempt to find a workable solution to the problems of democratic management in a large co-op in a capitalist economy; it is closer to equal opportunities than the vast majority of printing firms. Clearly the nature of choices available remains dictated by the needs of market competition, and has perhaps been eased by the rapid expansion of the printing industry during the early 1980s. Nevertheless the choices and conflicts facing printing co-ops are to a large extent those resulting from success, and the high degree of politicisation means that there is an appreciation of the nature of these conflicts. Certainly there are problems, of which sexism and gender divisions, and the emergence of different classes of worker remain the most serious. Any downturn in the economic prospects of the industry will exacerbate conflicts, and in the case of co-ops this is intensified by the abolition of the GLC and metropolitan counties, and other restrictions on local authority expenditure.

Table 8.5 Individual data for selected co-ops

Year	*Age*	*Output* (£)	*Net value added per worker* (£)	*Average wage* (£)	*Wages as % of VA* (%)	*Net VA/ fixed assets* (£)	*Fixed assets per worker* (£)
ALL PRINTING CO-OPS *(summary)*							
1979	-	212.5	2459	2100	85.4	1.09	1744
1980	-	520.1	2751	2709	98.5	1.40	1786
1981	-	974.5	3418	3371	98.6	1.55	1897
1982	-	1507.2	4019	3582	89.1	1.48	2148
1983	-	2176.4	5754	4390	76.3	1.27	4187
1984	-	2805.6	6791	5859	86.3	1.39	4936
AMAZON PRESS							
1982	6	11076	-38	380	-993.46	-0.09	434.8
1984	8	26932	208	2038	981.93	0.10	2113.5
1986	10	42399	2280	5076	222.56	0.59	3874.5
BLACKROSE PRESS							
1980	2	130725	5391	3714	68.88	1.31	4128.0
1982	4	190657	6781	4606	67.93	1.36	5000.0
1984	6	297919	50268	35018	69.66	0.87	57566
CALVERTS PRESS							
1978	1	40669	2230	2432	109.05	1.80	1237.4
1980	3	81115	3066	4109	134.01	2.17	1411.8
1982	5	105867	4661	5270	113.07	2.16	2157.2
1984	7	235571	9663	7398	76.56	2.95	3280.2
CAMBRIDGE FREE PRESS							
1982	2	18424	1674	1728	103.27	1.08	1547.8
1984	4	25874	1007	849	84.34	1.98	508.4
FLYPRESS AND BADGER							
1980	2	33367	2637	1883	71.39	1.59	1658.3
1982	4	54009	2583	2364	91.54	2.17	1188.4
1984	6	84604	3114	3122	100.26	5.03	619.1
LEEDS ALTERNATIVE PUBLICATIONS							
1982	5	49471	3174	4049	127.55	0.62	5109.8
1984	7	67692	3698	3286	88.87	1.15	3207.2
LITHOSPHERE							
1980	1	90286	5308	4123	77.67	1.77	3003.4
1982	3	250345	10101	8201	81.19	3.67	2752.1
1984	5	535364	11053	9107	82.39	1.13	9816.1
MANCHESTER FREE PRESS							
1980	1	16248	1006	1808	179.70	0.64	1566.7
1982	3	134048	2381	894	37.54	0.86	2754.1
1984	5	243766	4042	3446	85.26	1.25	3243.1

continued ....

Table 8.5 *continued*

Year	*Age*	*Output* (£)	*Net value added per worker* (£)	*Average wage* (£)	*Wages as % of VA* (%)	*Net VA/ fixed assets* (£)	*Fixed assets per worker* (£)
PARADOS GRAPHICS							
1981	2	16430	1818	3063	168.51	0.31	5841.2
1983	4	101649	6379	6816	106.86	3.19	1997.3
1985	6	157528	8611	8221	95.46	5.18	1661.4
SPIDER WEB							
1983	3	314058	9517	7882	82.82	2.40	3965.5
1984	4	413976	10131	8282	81.75	1.21	8403.3
SHEFFIELD WOMENS PRINTING CO-OP							
1982	1	20250	1910	2032	106.39	6.40	298.2
1983	2	29122	3935	3748	95.24	2.50	1574.0
1984	3	27853	2460	3334	135.49	0.72	3428.0
TROJAN PRESS							
1981	2	16559	549	955	173.86	1.73	317.6
1983	4	45569	3165	1814	57.32	6.30	502.4

9. Clothing Co-operatives

INTRODUCTION

The second industry chosen for study is clothing manufacture. Like the other two sectors studied, it has always been an important sector of co-operative activity, and a relatively high number of co-ops have been formed. It also has a large proportion of small firms, which broadly fit into the 'dependent' category as identified by Schutt & Whittington, contrasting with the printing and wholefood sectors. It also differs from those sectors, in that clothing manufacture has been in decline in Britain for many years; this decline has intensified the problems of low wages, poor working conditions and insecure employment which have long characterised the sector[1]. The majority of workers are women, who are not in a strong position to challenge their intense exploitation. Clothing co-operatives are faced with perhaps a greater challenge than elsewhere, in countering the vulnerability of workers in the industry, but at the same time are in a weaker position to mount such a challenge. This chapter analyses the strength of clothing co-ops and the extent to which they have been able to bring about any changes.

THE CLOTHING INDUSTRY

The role of women in clothing manufacture

The clothing industry is characterised by the important position occupied by small firms, and the large number of female workers, who make up around 80% of the workforce. It is a Wages Council industry, wage levels tend to be low, and it is technologically backward. All of these characteristics need to be understood in the context of the particular relationships between small producer firms and large retailers and wholesalers[2]. But first of all, it is necessary to examine the impact which the role of female labour has had on the development of the industry and the nature of the labour process.

The origins of women's employment in the industry lie with the role of garment-making as part of women's domestic tasks. With the extension of capitalist control during the 19th

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1 *There have been many studies highlighting the position of clothing workers; see for example Winyard, 1977.*
2 *Rainnie, 1985a.*

century, developments in clothing paralleled those in many other industries, as workers and production were gathered together in factories. In clothing, this did not generally involve changes technology or the division of labour; rather, the intention was to increase supervision and control over production, particularly over the length of the working day and the pace of work. At the same time, a dual system of control was (and still is) maintained throughout much of the industry by the parallel use of homeworkers; for them, and for some factory workers, control and exploitation is maintained indirectly through payment by piece rates.

Since the adoption of the modern sewing machine in the latter half of the 19th century, the major technological characteristics of clothing manufacture have remained unchanged. Because much of the work is carried out by women, capital has had little incentive to develop new production techniques, and hence the technology has remained largely unchanged. Rather than invest in research and development so as to increase profitability through new production equipment and methods, capital has relied upon the characteristics of female labour to maintain and increase profits through low wages and poor working conditions. It has been possible to keep wages down for three reasons. Firstly, there is always a large reserve army of female labour from from which new workers can be recruited, which does not apply to the same degree to male 'skills'. Secondly, the social obligation on women to reproduce labour-power through child-rearing and the support of men means that they have a lower attachment to the labour force, which in turn makes collective organisation more difficult for women; hence their reputation for being less militant as workers[3]. Despite their superior collective organisation, men have a poor record in defending the rights of women workers. Thirdly, low wages are justified on the basis that sewing is not 'skilled' work; in reality, machining is skilled, but the skills can be underrated because they are often partly learnt and used within the home. This also saves employers the costs of training their skilled workers, in addition to paying 'unskilled' wages.

Production process

Although women dominate manufacturing work in the industry, there is a sharp division of labour along gender lines. There are several distinct stages in the process of clothing production and distribution.

3 See Rainnie, 1983, for detailed examples of womens' role in trade unions in clothing factories in the north east, and the constraints imposed on this role by domestic obligations.

Stages of Clothing Manufacture

DESIGN
PURCHASING

CUTTING
MACHINING
TRIMMING

MARKETING
DISTRIBUTION
SALES

In the manufacturing stage (cutting, machining and trimming), machining is the most important element; it is labour intensive, and accounts for as much as 80% of the labour needed to produce a garment[4]. This almost exclusively female work, whilst virtually all cutting is carried by men; the latter is considered to be a much more highly skilled job than machining[5].

Ownership structure

The relatively small incentive to innovate technologically has had an impact on the ownership structure of the industry. Although there are economies of scale to be gained in some areas, production remained on a small batch rather than mass production basis. Processes of centralisation and concentration of capital continued, but compared to many other industries there were few competitive advantages to be gained from large scale production; where these did exist, they were in long production runs of relatively standardised garments for mass consumption. To counter the increased organisation of clothing workers in larger factories, major producers also began to move out of London during the inter-war years to areas where cheap labour was plentiful. This included both

4 GLC, 1985, p. 123.

5 It is no coincidence that the major developments in mechanisation of clothing manufacture during much of this century came at the cutting stage.

peripheral regions of Britain (such as the north-east) and production in the third world. However, the lack of major scale economies, and problems of worker resistance in large, unionised factories, meant that much production remained small scale.

Following 1945, the emergence of large retail combines added an extra element to this structure. Concentration and centralisation proceeded much further and faster in distribution than in manufacturing; the continuing dependence of the latter on cheap labour made British manufacturers highly vulnerable to imports, and capital remained weak and unable to accumulate significantly.

The emergence of large firms in distribution added a new element to the role of small firms in the clothing industry, and the continued existence of low technology, highly labour intensive small clothing firms can only be understood in terms of the development of the industry as a whole. The trend has been towards

> an ecology of firms engaged in a complex hierarchy of subcontracting. 'Manufacturers' break up orders from the leading retailers in an increasingly concentrated industry to subcontractors who may divide up their share in turn to smaller firms. At the bottom of the hierarchy are the homeworkers[6].

In order to keep the cost of making clothes down to a minimum, it has been in the interests of these wholesalers and retailers to maintain a large number of manufacturing firms in the industry, and to make entry easy for new producers. Thus they frequently supply the material used, keeping down working capital requirements; the consequences are to make margins in manufacturing small, and to increase the relative bargaining position of retailers and wholesalers relative to the makers of clothes. At the same time, it increases the ease with which new entrants may join the industry as manufacturers, as others are forced out.

Small firms are therefore encouraged at the manufacturing stage of the industry, in Cut Make and Trim (CMT). The necessary skills are possessed by many women, so workers are easy to find, and the fixed capital requirements - for inexpensive sewing machines - are small. Most of the planning, design and marketing skills are handled elsewhere, and so the requirement for 'management' skills is minimal. These firms are effectively labour-only subcontractors, locked into particular dependent relationships with larger distributors and monopoly retailers, are highly vulnerable, and have little control over the price they receive for their work.

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6 *Ward, Randall & Krcmar, 1986.*

The dominant force in the British clothing industry, Marks & Spencer, makes full use of this system, and indeed its success is built upon it. M&S - or 'Baker Street' as it is known in the trade - takes around 20% of the entire output of the UK clothing industry, and yet undertakes no production directly. It obtains its supplies from a vast network of suppliers, including many small-medium firms as well as large multinational manufacturers such as Tootal. M&S exercise direct control over the production and output of many suppliers, there is also an element sub-contracting, with suppliers contracting out work to smaller manufacturers and homeworkers. For its suppliers, M&S contracts offer the prospect of high volumes and long production runs, but which allow very low profit margins and have extremely tight quality control requirements. Many producers become highly dependent, relying on M&S for up to 90% of their work. However, being locked into "the Western World's most tightly controlled factory-to-shop system"[7] can be a double-edged sword. "To make profits out of Marks and Spencer requires fast, highly accurate work"[8]; failure to meet quality requirements frequently results in ruthless removal from the approved suppliers list, and there is constant vulnerability to changes in buying policy and to fluctuations in M&S' own level of business. For M&S the problems of their suppliers are unimportant, as all that matters is the survival of a large number of small suppliers, rather than any particular supplier. When in 1979 M&S held its first unscheduled sale for 20 years, suppliers were forced to bear half the burden of price cuts[9]. In 1988, following a period when M&S sales were below expectations, suppliers were forced to bear the brunt and impose closures and redundancies[10].

Although this structure has benefited the large retailers and wholesalers, it is not favourable for either capital or workers in clothing manufacture. It has led to a failure to innovate, and a lack of a coherent design and marketing strategy; "show us what you want and we'll make it for you" remains a common attitude amongst manufacturers[11]. Many of them are content to remain at the bottom end of the mass market where production runs may be relatively long, but competition from low cost imports is most intense and where profit margins are

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7 Sunday Times 19.6.83.

8 Elson, nd, p. 27

9 Sunday Times 19.6.83.

10 For instance, in May 1988 The Guardian reported that textile manufacturer Corah was to close its knitwear division with the loss of nearly 800 jobs; 70% of the division's sales went to M&S ... this followed a period when M&S clothing sales had been below expectations ... Corah struggled as imports and margin pressures held back profits, with lower profits despite increased sales

11 Davenport & Totterdill, 1986, p. 58.

lowest. Price competitiveness is often seen as paramount, and can often be achieved only through low wages.

Working conditions

Whilst M&S is renowned for its products, prices and profits, less well known is its dependence upon the conditions of work endured by many clothing workers in Britain. The clothing industry is renowned for its sweatshops and poor conditions, and the success of firms such as M&S, far from transforming the poor position of clothing workers, has been built upon it. M&S itself has succeeded in developing a reputation as a good employer, offering better wages and conditions than is typical in the retail trade; it can only achieve this by keeping at arms length the workers who produce most of the goods sold in their stores.

The clothing industry is notorious for its low level of wages and poor working conditions. Table 9.1 shows wages in 1984, with both male and female wages in clothing significantly below average wages in all industries and in manufacturing; in fact clothing has lower wages than any other manufacturing industry[12].

Table 9.1 Clothing industry: wages and hours worked, 1984

		All Inds. (SIC 0-9)	*All Mfg. (SIC 2-4)*	*Clothing Ind. (SIC 453)*	*Clothing Co-ops*
Average weekly wage *(mean)*	M	152.3	158.9	114.0	57.5*
	F	93.5	96.0	80.1	..
Average weekly wage *(median)*	M	143.3	149.7	112.1	..
	F	88.6	92.1	76.4	..
Weekly hours *(mean, inc. overtime)*	M	44.3	44.4	42.4	..
	F	39.4	39.9	39.2	..

* male/female workers combined average

Source: New Earnings Survey; own calculations.

12 See New Earnings Survey.

The small firms which carry out much CMT work are dependent upon cheap labour; typically female and/or black and immigrant workers, suffering from racism and insecurity over their official status, which further undermines their employment status and strength. The vulnerability of these firms to the terms offered by the large distributors means that there is constant downward pressure on wages and working conditions, and conditions in the industry are highly influenced by the degree of dependency on large firms. In the majority of clothing firms, "wages are low, conditions poor, work insecure and many working practices illegal", and wages are low even by comparison with other industries employing predominantly women[13]. The current Wages Council minimum rate for clothing workers is around £2 per hour, but many workers are not registered and receive less than this, nor are they subject to health and safety regulations. The worst off of all are homeworkers, who are paid by piece rates which work out at £1 per hour or less, and have even less legal rights. This is despite the fact that many of them are ultimately working for 'respectable' retailers such as Marks & Spencer, Tesco, Debenhams and the Co-op[14].

Workers are poorly organised, and the main union in the industry, the NUTGW, is [white] male dominated and weak. Many firms operate on the fringes of legality, where "a very frequent practice is for a firm to close without warning to avoid creditors and then open again soon after with the same management and often in the same premises"[15]. This is not because the clothing industry necessarily attracts employers who are inherently devious or evil people (although it may well do); they simply have no choice if they are to stay in business. The experience of work for the majority of workers is unpleasant and badly paid, but they too have little choice in what they do; that is why the industry is dependent upon the weakest and most exploited sections of the labour force. For workers, the reality of conditions contrasts sharply with the idealised vision of 'small is beautiful'[16], and in the clothing industry it is those in the large factories who enjoy superior working conditions.

The low profitability of clothing firms makes any long term investment virtually impossible, and so the industry remains inefficient, with low productivity, continually dependent upon sweated labour. The situation is particularly bad in London, where manufacturers are

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13 GLC, 1985, pp. 119-120.

14 <u>The Observer</u> 5.6.88.

15 GLC, 1985, p. 121.

16 Rainnie, 1985a.

highly dependent upon the fashion trade, which exacerbates their vulnerability to fluctuations in the level of demand.

Recent changes

The last decade has seen perhaps the most far reaching changes in the nature of production and accumulation in clothing for a century, with extensive restructuring of production resulting as several different historical processes came together.

In production, British clothing manufacturers had experienced a long period of decline resulting from

- a marginal economic position, with low accumulation and a lack of reinvestment in new productive capital;
- competition from developing-country imports;
- an inability to compete with imports; with labour intensive production, labour costs could not be significantly reduced in what was already a low wage industry, and there had been insufficient investment in machinery which could increase productivity.

This long term decline accelerated sharply during the 1970s, and was exacerbated by the recession of 1979-81. The number of liquidations in the sector increased to almost double the rate for all manufacturing industries during the 1970s, and by the mid-1980s they accounted for 27% of compulsory and 85% of voluntary liquidations[17]. With many firms closing, both output and employment fell by 26% during 1979-82 (see Table 9.2 and Figure 9.1). Since the recession, the industry has seen a rise in output, but this has taken place without any significant increase in employment. As in many other industries, the recovery has essentially been a recovery for profits, and the share of output and value added devoted to wages has fallen (see Table 9.3).

The second change had been a gradual decline in the importance of standardised garments for mass markets, in favour of specialised fashion garments. Clothing is one market where consumers' tastes have undergone such a change[18], and this gave an additional importance

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17 Davenport & Totterdill, 1986, p. 58.

18 Nolan & O'Donnell, 1987. Increasing specialisation of tastes, as opposed to mass consumption, has been claimed by many participants in the 'flexible specialisation' debate, but there is little evidence that mass consumption demand has been exhausted (e.g. recently created markets for videos and home computers).

to the role of design, and of flexibility in production and distribution; that is, firms which could produce designs which anticipated or created market trends, and which could alter production quickly, would have a competitive advantage.

Table 9.2 Clothing industry: output and employment

	1979	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Output *(£m)*	3,105	3,018	2,898	3,025	3,170	3,671	4,187
Output volume *(1980=100)*	115.2	100.0	88.5	85.7	87.0	95.4	105.5
Employment *('000)*	321.9	296.1	255.9	237.1	228.8	228.2	236.8

Source: Census of Production (PA453)

Figure 9.1 Output and employment in clothing ***(Index, 1980=100)***

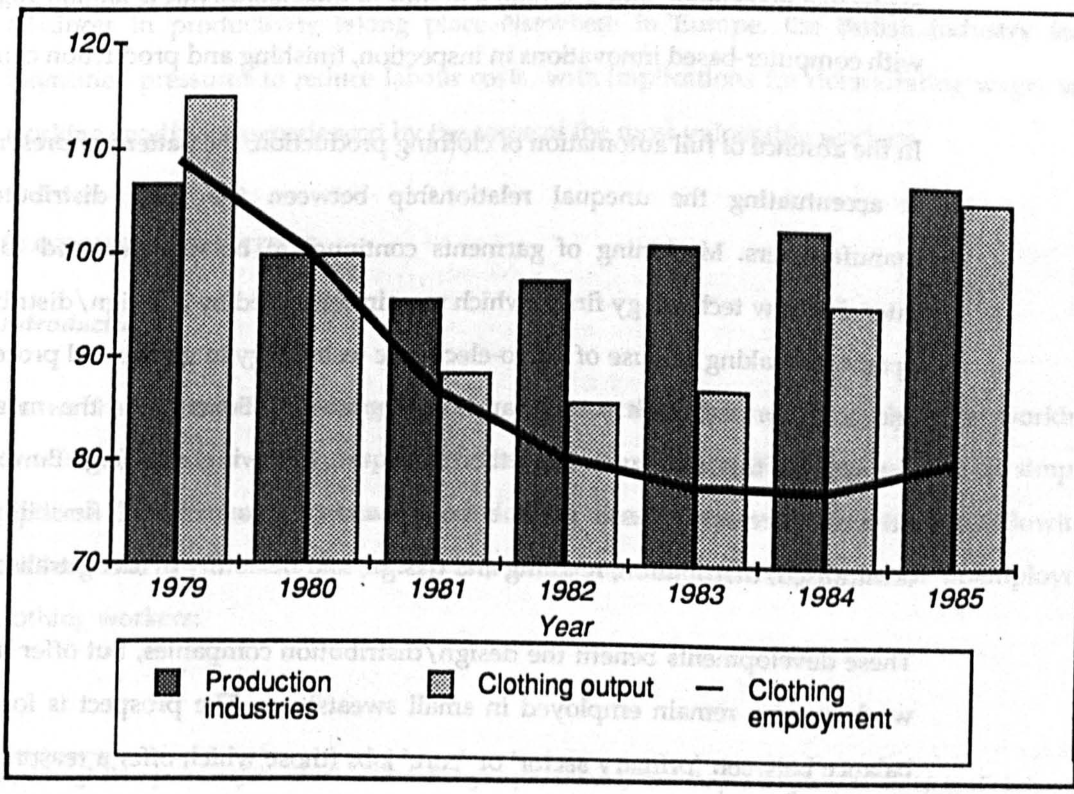

Table 9.3 Clothing industry: share of wages in output and value added (%)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*
Wages/net VA	66.6	66.5	65.2	64.1	62.9	61.1
Wages/output	27.7	27.9	27.4	26.9	26.9	25.7

Source: Census of Production PA453

Thirdly, the development of computer-based 'flexible manufacturing' systems has been applied to small-batch clothing production. Already computer aided graphics and numerically controlled machine tools have had a considerable impact on pattern grading, marking and cutting. Size and design changes are easily accommodated, and there have been considerable increases in the speed and accuracy of the pre-sewing stage of production[19]. Although there have not yet been any really major breakthroughs in automating garment assembly, prototypes have been designed which enable computer-controlled machining, and it is only a matter of time before this is widely available, together with computer-based innovations in inspection, finishing and production control[20].

In the absence of full automation of clothing production, the pattern of present development is accentuating the unequal relationship between the large distributors and small manufacturers. Machining of garments continues to be subcontracted to small, labour-intensive, low technology firms, which remain controlled by a design/distribution/retailing operation making full use of micro-electronic technology to gather and process information, and to automate stock control and warehousing[21]. Benetton is the most sophisticated example of this structure, but other firms are following suit (e.g. Burton and Next in Britain). Success is based upon a combination of control and flexibility: control over (centralised) distribution, retailing and design, and flexibility in (decentralised) production.

These developments benefit the design/distribution companies, but offer little for clothing workers who remain employed in small sweatshops. The prospect is for a deteriorating balance between 'primary sector' or 'core' jobs (those which offer a reasonable wage, some stability of employment,and a full range of rights and welfare benefits) and 'secondary

19 *Elson, nd, p. 18*
20 *Hoffman, 1985.*
21 *Mitter, 1985; Zeitlin, 1985.*

sector' or 'peripheral' jobs (those which offer low wages, little stability, few rights and welfare benefits).

In the longer term, larger manufacturers may benefit from the adoption of increasingly mechanised clothing production, as will a minority of workers in skill-intensive jobs[22]. The past few years have seen the start of some adoption of these new technologies in the clothing industry. However, most of the capital equipment is very expensive, and the history of poor management and accumulation does not augur well. There are doubts concerning the capability of the industry to restructure effectively even in capital's interests[23]; the prospect is of European firms benefiting most. There seems little doubt that effective public intervention is necessary to ensure such restructuring in Britain; in London, the GLC aimed to use such intervention to restructure along lines which would benefit workers in the industry, although little of this programme was implemented before the council's abolition.

Without such restructuring, the prospects for the industry in Britain are bleak. With advances in productivity taking place elsewhere in Europe, the British industry faces intensified pressures to reduce labour costs, with implications for deteriorating wages and working conditions experienced by the some of the most vulnerable workers.

CLOTHING CO-OPERATIVES

Introduction

As we have seen the clothing industry is characterised by particularly poor working conditions and low wages, especially for women workers. If co-ops are not to simply replicate the situation found in typical clothing firms, they are faced with the following challenges at the level of the enterprise, in addition to providing work for unemployed clothing workers:

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22 *Although the experience of the related textile industry may be relevant; "over the past 20 years, the British textile industry has been transformed from a labour intensive industry, with low wages, to a capital intensive industry, with low wages" (Channel 4 News, 8.6.88).*

23 *Research at Manchester Polytechnic suggests that "British clothing manufacturers appear unlikely to take advantage of new opportunities in the changing relationships with retailers and new technology .... [they] are much slower to respond to the new commercial climate than foreign competitors ..... the benefits have been going to EEC manufacturers" (Guardian 16.11.87)*

• securing a greater degree of control by workers over their own jobs and work environment;

• providing more stable employment, higher pay and better working conditions for clothing workers;

• improving women's access to 'skilled' work in the industry.

The problems faced by co-ops in achieving these objectives are immense. The poor conditions experienced by most clothing workers result from the nature of the accumulation process in the industry, and the impact which this has had on the structure of the industry and the nature of the labour process. It is not due to a conscious strategy by capitalists owning small clothing manufacturing firms; if these clothing firms are to survive they have very little flexibility open to them in terms of working conditions. Given that co-ops must survive in the same market and must operate in the same relationship to the large distribution companies, what potential is there for clothing co-ops to operate differently and meet the challenges outlined above? In this chapter I will first of all consider the nature of the clothing co-op sector, and then consider the experience of some individual co-ops.

Formation of clothing co-ops

19th century co-operatives

Clothing co-operatives figured prominently in the second major wave of co-op formations in the nineteenth century, and many were formed during the 1880s. Clothing, along with the related boot and shoemaking co-ops, and printing accounted for the major part of these CPF co-ops. All of these industries were late in transferring to factory production, and in them small scale manufacturing predominated[24]; Oakeshott notes that these three industries "never seem to have accounted for less than 60% of the enterprises in existence at any one time"[25]. Of the three industries, however, clothing was the smallest. Eight CPF clothing co-ops survived until the late 1950s, when several of them were very large by industry standards:

24 Thornley, 1981, p. 26.
25 Oakeshott, 1978, p. 59.

Co-op	Workers
Alcester Productive	27
Ideal Clothiers	831
Kaycee Clothing	364
Kirkby-in-Ashfield Manufrs	49
Macclesfield Silk Manufrs	71
Queen Eleanor	153
Sunray Textiles	165
Wigston Hosiers	64

Source: Co-operative Union, 1960.

The fortunes of these co-ops were largely tied to their trading relationship with retail societies; clothing co-ops, along with footwear co-ops, had very close links with the retail co-ops which provided their main market. It was this assured market which enabled the producer co-ops to survive and grow. By the mid-1960s however, retail co-ops were facing increased competition from supermarkets, and the response was to become more like their capitalist competitors and convert retail co-ops into a homogeneous chain. This change involved a more dominant role for the CWS. Previously, retail stores had more autonomy and a free choice as to suppliers, and many chose to purchase from CPF producer co-ops, and each offered a different range of goods. In 1963 the "Co-operative Wholesale Marketing Scheme" was introduced, under which retail societies were encouraged to amalgamate and to make all their purchases directly from the CWS[26]. The aim was to have a similar range of goods available in all co-op stores, and to enable lower prices through bulk purchasing by the CWS and scale economies in distribution.

The Marketing Scheme had a major effect on many CPF clothing and footwear co-ops, as they lost their main market. Several reported substantial reductions in co-op trade in the late 1960s; for instance in 1967 Kaycee Clothing stated that:

> CWS Marketing Schemes now control virtually all 80% of all trade in menswear in our major outlets. This is having a serious effect on our trading potential. The future depends on our ability to find new markets[27]

Similar sentiments were expressed in 1970, and the co-op eventually folded in 1974. Many footwear co-ops suffered the same fate. Even for Ideal Clothiers, which was fortunate

26 Some retail co-ops were actually taken over by the CWS.

27 Ideal Clothiers Annual Report 1967, quoted in Bennett, 1984.

enough to be selected as a supplier to CWS Marketing Schemes, the changed market relationship had a serious impact:

> a steadily increasing part of our trade with the CRS is covered by Marketing Schemes which are not profitable[28].

Despite the pressure exerted on suppliers by the CWS, this continued trade provided a cushion from the worst effects of the Marketing Schemes on producers, and Ideal Clothiers did find some new markets. However, the co-op finally collapsed in 1983, and by 1987 only one CPF clothing co-op (Queen Eleanor) and two footwear co-ops (NPS Shoes & Equity Shoes) survived. The impact of links between producer and retail co-ops is of course in line with the analysis of the Webbs detailed in chapter 2.

Recent formations

In chapter 5 the size of the clothing co-op sector was shown relative to the overall sectoral distribution of co-ops. Table 5.7 shows the prominence of clothing co-ops amongst production co-ops, and within the co-op sector as a whole. The information is summarised in Table 9.4.

Table 9.4 Formation of clothing co-ops

	SIC	*Co-ops formed*	*Co-ops surviving*	*Survival rate (%)*
All co-ops	*0-9*	1330	880	66
Production	*1-4*	361	243	67
Clothing	*453*	75	40	53

Source: London ICOM (1987); own calculations.

Thus 5% of all co-ops, and 17% of production co-ops, formed in the period 1975-1985 were in clothing manufacture. Only printing, arts & media, building and wholefood retailing had more formations in the period.

28 *Kaycee Clothing Annual Report 1967.*

Reasons for emergence of co-ops in clothing

There are a range of important factors and characteristics of the industry which are behind the emergence of clothing co-ops and their prominent position in recent co-operative growth:

- the industry is labour intensive;
- production is generally small scale.
- start up costs - in terms of fixed and working capital - are low
- the clothing industry has been in decline, leading to redundancies.
- the industry is characterised by poor wages and working conditions, and a lack of opportunities for advancement for women.
- the structure of the industry is such that production is divided up into stages between firms; those in CMT can survive with few skills other than cutting and sewing.

To the extent that widespread unemployment and poor working conditions in the industry provide an incentive for workers to attempt production under their own control - with more secure and better quality jobs - then there are fewer constraints on the formation of co-operatives in clothing than in many other industrial sectors. This accounts for the relatively high level of clothing co-op starts. Most importantly, the limited initial financial and skill requirements mean that the problems typically faced by co-operatives in securing adequate finance are less likely to be constraint, particularly in CMT, where most clothing co-ops are to be found.

However the conditions for emergence are very different to the conditions for survival, and do not necessarily contribute to the achievement of those objectives. Indeed, the very conditions which make it easy for clothing co-ops to start may detract from performance. For instance, the ability to start production in CMT with few skills offers little opportunity to secure a higher degree of control over work, due to dependency on other firms.

The importance of small firms in the clothing sector is a characteristic shared with printing, but overall there are more contrasts than similarities. Skilled printing work is male dominated, well paid, and highly unionised; none of these factors apply in clothing. Furthermore, relationships to large firms are very different; while clothing co-ops are highly dependent upon direct trading links, printing co-ops have a much greater degree of independence.

Survival & growth of clothing co-ops

The distinction between conditions for formation and emergence of co-ops and those for survival are illustrated in the high formation rate and the subsequent high failure rate. Although many clothing co-ops were formed over the period, their ability to survive was poor. Table 9.4 shows that 75 clothing and footwear co-ops were established in Britain from 1975 to 1986, and by the end of 1986 only 40 of these were still trading, a survival rate of 53%. Referring to Table 3.8, the clothing sector has the lowest survival rate of all co-op sectors apart from building.

The instability and insecurity of clothing co-ops reflects the industry in which they operate rather than anything particularly to do with the co-op form; it is a characteristic of small clothing enterprises in general. It is difficult to make direct comparisons between the survival rates of co-ops and capitalist firms, as data on the industry is of poor quality, but clearly there is a high turnover of small firms in the clothing industry.

Economic position

The low survival rate of clothing co-ops is of course a consequence of their vulnerable and insecure economic position. Their commercial performance has been dealt with in chapter 7, in comparison with the performance of co-ops in the other two sectors. Some of the important findings are worth noting at this stage in the context of the analysis of the sector and key results are presented in Table 9.5 at the end of the chapter.

The clothing co-op sector is the smallest of the three co-op sectors studied, in terms of the number of co-ops included, and the output of the sector. It is also the least consistent over a period of time; the instability derives from the high failure rate and short lifespan of many clothing co-ops, leading to a rapid turnover of operational co-ops. In addition, operating co-ops are themselves relatively unstable[29]. Although this instability means that trends in performance are difficult to detect, it is itself an indication of economic vulnerability and marginality.

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29 see Table 9.5 for examples.

The clothing co-op sector is characterised by poorer performance in all areas than the other two sectors studied. Both net value added per worker and wages are lower; and although they are closer to industry averages than are the equivalent figures for printing co-ops, this reflects the generally poorer performance of the clothing industry as a whole.

The most disturbing aspect of clothing co-ops performance is that virtually all of the surplus generated is devoted to wages. Although wages in clothing co-ops are only marginally lower than those the industry as a whole, these wages are low in absolute terms. Nevertheless, there is no surplus remaining to contribute to accumulation; in every year except one from 1980 to 1985, 100% or more of net surplus was devoted to wages. So, in terms of the performance indicators discussed in chapter 7, clothing co-ops perform badly - low surplus per worker, low wages, and low contributions to reserves. For the main indicator, value added per head, clothing co-ops have only achieved 50% of the level in printing co-ops. Co-ops are also less productive than capitalist clothing firms, as Table 9.5 shows. Output per head is only one third or one quarter of the industry average, and value added per head is lower, and inevitably a much greater proportion of the surplus must be devoted to wages, thus restricting accumulation.

Turning now to the generation of value added, clothing is also distinguished from the other two sectors. The inability to accumulate means that productive capital does not get replaced, and as a result the value of fixed assets per head has continuously fallen. This is more a financial phenomenon than a real one, and physical capital in clothing can endure for a long period with adequate maintenance, certainly much longer than the usual ten year depreciation period.However, it does indicate that very little new physical capital can be afforded. It also appears that value added is increasing relative to the diminishing book value of assets, unlike the other sectors where it is roughly constant.

Particularly disturbing, and unlike the other two sectors, is the evidence that there has been no improvement over time; in printing at least, performance started off badly but has shown a steady improvement. With wages being higher than the surplus generated, trading losses are being run up, and no reinvestment is taking place, making it even more difficult to improve performance. The problem is partly a result of initial financial problems; although clothing co-ops benefit from a relatively high proportion of public sector loans and grants, these appear to be primarily to subsidize trading losses rather than to invest and restructure. There is little initial financial input from members, because most clothing co-op workers are poor, and little sympathetic private funding, perhaps because clothing does not have the political significance of wholefoods or alternative print. Clearly, with such poor performance, clothing co-ops overall have substantial problems in raising commercial finance, although this does not apply to all individual co-ops.

The experience of clothing co-ops

The origins of most clothing co-ops result from the long-standing economic problems of the clothing industry. Many are closely associated with closure or redundancies at capitalist firms, and represent efforts by workers to preserve their jobs. There have been fewer new starts than in the co-op sector generally, and more 'rescues' or 'phoenix' co-ops.

Fakenham Enterprises

Such origins, and the consequent difficulties, were illustrated by one of the first co-ops formed in recent years, Fakenham Enterprises[30]. Although the co-op originally worked in footwear manufacture, its problems were identical to many in CMT clothing manufacture. The factory at Fakenham, Norfolk, was originally part of a medium-sized footwear firm based in Norwich - Sexton, Son and Everard - which went into liquidation in 1972. As part of a larger concern, it carried out a particular part of the shoe manufacturing process, and employed around 50 workers, of whom all except one were women. When it became apparent that the Receiver's plans were unlikely to preserve any of the Fakenham plant's jobs, the women occupied the factory. A core of around 12 women maintained the occupation for 18 weeks, and eventually succeeded in establishing a co-op. Their aim was not just to save jobs, but specifically to secure a greater degree of control over their own work and improve conditions[31]. A co-op was specifically chosen because of the women's experiences of capitalist employers[32]:

> the women did not want .... "somebody to make a takeover bid for us and two years from now decide that the thing isn't a profitable concern and throw us out on the road again. We've had it so often." Because of their previous employment experience, the women were suspicious that a new owner would have no scruples about introducing further redundancies. They wanted to be able instead to offer jobs to the women who had been forced to leave the

30 Lockett, 1978; Wajcman, 1983.

31 Wajcman, 1983, pp. 51-2.

32 This was not just the direct experience of those in the shoe factory being sacked by the previous owners; most working women in Fakenham had been made redundant at some time in their working lives.

> factory, both because they could not afford to work without pay and because of pressure from disapproving husbands[33]

Problems began immediately. As part of the larger concern, the Fakenham factory had carried out only part of the shoe manufacturing process. Skills and equipment were geared exclusively to 'closing' shoe uppers, and the factory was dependent on the main company for supply of raw material, for management skills and marketing. Fakenham therefore had no independent manufacturing capability.

The co-op was faced with an immediate need to secure new business. One option was to undertake shoe closing work under contract, similar to that carried out in the past. However, sub-contract work in a declining market promised insecurity, absorbing fluctuations in other firms' workloads, and consequently the sort of employment flexibility - hiring and firing - used by conventional firms, but which would be incompatible with being a co-op.

An alternative was for the co-op to move into making and marketing its own products. This involved additional requirements:

- skills in product design
- production skills for all stages of manufacture
- management and administrative skills, especially marketing, costing and organisation
- appropriate production equipment
- working capital for raw materials, wages, stocks, creditors etc.

Because of its previous role and position within the larger firm, the co-op was lacking all of these, and could not move into this area immediately. It was initially forced to take some shoe contracts, and also other sub-contract work, making bags, dresses and leather clothes, usually on a CMT basis. However, the situation on these other lines was if anything worse than that for shoes, as the co-op workers lacked appropriate skills and machinery, and could only compete at the bottom end of the sub-contract market. This effectively meant competing with outworkers - individuals working at home - and as a result the prices offered provided very low rates of pay and little contribution to factory overheads.

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33 Wajcman, 1983, p. 51.

The combination of these types of work led the co-op into a vicious circle, illustrated below. Sub-contract work offered low profitability, and hence no surplus which could be retained for training, product development and new machinery. Undercapitalisation meant continued dependence on work with low capital and skill requirements, and acceptance of such work continued the cycle of low profitability and undercapitalisation. The overall result was stagnation, insecurity and recurrent financial crises. Although this situation applies to many firms in CMT, for the co-op it was worse due to the particular circumstances of formation and the greater than usual shortage of finance, skills and equipment.

↓
acceptance of low skill, labour intensive contracts
↓
work offers low revenue and value added; low skill level
↓
low surplus and accumulation
↓
lack of capital for product development, training and new machinery
↓
little training or investment in new machinery
↓
need for work with low capital and low skill requirements
↓

A necessary condition for breaking out of this situation was an injection of finance enabling investment in machinery and training, with the aim of thus securing work with a greater skill requirement. Such work would pay higher rates, enabling the accumulation of a surplus for continued training and investment, or the payment of better wages, and eventually the possibility of developing their own products. The consequent reduced need for sub-contract work would reinforce the beneficial aspects of the process, and enable a greater degree of security and independence, and escape from recurrent financial crises.

This situation is not peculiar to a co-op, but would apply to virtually any small firm in the clothing or footwear industry with similar origins. In fact the situation facing a co-op is more difficult even than this, as the achievement of a greater degree of collective control over work and the introduction of alternative working practices is an additional factor which makes viability more difficult to achieve. This conflict was illustrated through the involvement of Scott Bader, which will be discussed below.

Like many co-ops, Fakenham Enterprises was in a weak position to secure external finance from commercial sources. This was due to:

- the co-op's poor commercial performance record;
- the lack of management and financial skills;
- potential discrimination against an all-women enterprise, in addition to discrimination against co-operatives;
- the inability of co-op workers to contribute any significant finance of their own;
- the lack of security which could be offered by the co-op or individual workers against any loan;

Although there was little chance of obtaining commercial finance - and the co-op never even attempted to secure it - there were offers of funds at the very beginning from two sympathetic sources. The first was from ASTMS, the union representing some of the original workers at Sextons, and which had been sympathetic to the womens' struggle from the beginning. The second offer was from Scott Bader (SB), which was keen to encourage new co-ops, particularly those emerging from bankrupt companies rather than conversions as most had been up to that time. There was conflict between the ASTMS and SB approaches, and the women accepted the involvement of SB, largely because they were offering the more substantial finance.

SB's aim was to bring the co-op to financial viability as quickly as possible. It contributed funds to cover working capital and operating losses in the early days, although its initial contribution of £2,500 was nowhere near the estimated requirement of £20,000. SB insisted on bringing in its own manager, who would have complete control over the co-op (!) until viability had been achieved. This approach gave the workers very little, if any, say over how the co-op was to be run. SB's approach was as follows:

> achieve profitability quite single-mindedly without confusing this with the ideals of common ownership. As soon as the concern is able to pay its way without financial assistance from us we naturally earnestly hope that it can become a common-ownership concern but no-one should be under any illusion concerning the immediate priorities[34]

34 Brian Parkyn, a Scott Bader appointed director, at the 1973 AGM (quoted in Wajcman, 1983, p. 71).

Despite this aim, SB never really supported attempts to move away from labour-only sub-contract work, and under their influence the co-op remained hopelessly vulnerable to fluctuations in the state of the footwear industry. Furthermore, SB's approach conflicted with the changes which the women had introduced during their occupation, and which for many of them were the most significant achievement of their struggle.

It is typical in the clothing and footwear industries for production to be organised on a piecework basis. This is capital's method of securing control over the intensity of work, particularly in sub-contract work where supervision is indirect. Piece rates are thus used to maintain the speed of the machinists; it encourages competition between workers, tends to result in a tense atmosphere, with workers tied to their machines throughout the working day.

From the beginning of the occupation, the women at Fakenham worked collectively. This meant that they participated equally in decision-making, and there was completely open access to information. Collective organisation extended to the production process itself. Instead of a detailed division of labour, with different workers carrying out small parts of the overall process repetitively, the aim was to enable each worker to carry out the entire process and produce a finished article. In practice some specialisation was necessary given the low prices offered by sub-contract work, but for the first time workers were sharing their skills and knowledge rather than competing. Integral to this was the introduction of a flat-rate weekly wage in place of piece rates. Although this meant that experienced workers earned less than under the conventional system, it encouraged collective rather than individual effort, and contributed to the relaxed atmosphere at the factory. There was also flexibility over hours worked - women with responsibility for children could work hours which suited them; under the previous owners it was management which dictated hours worked. During school holidays women could bring children into the factory, or work at home. Management decisions were made collectively at weekly meetings of the workforce.

Given the precarious financial state of the co-op however, this reorganisation of working practices was under severe pressure from early on. Despite SBs position as a pioneer of industrial democracy, they clearly saw co-operative working as entirely subordinate to commercial viability, and it was their imposition of a manager that undermined the changes which the women had introduced. Instead of attempting to find a sympathetic manager who would build upon their achievements and be responsive to their needs at the same time as passing on the required administrative skills - admittedly a difficult task - SB selected an individual with no interest either in co-operatives or in training the Fakenham workers, and with a very conventional view of hierarchical organisation and control. Ultimately SB did not succeed in establishing the co-op as commercially viable, nor did they equip the women with necessary managerial skills or financial security to break out of their dependent economic position. SBs legacy was to leave the co-op in a position where it could not survive and was eventually absorbed by outside capital.

After two years the workers decided to end their relationship with SB, following continual bad experiences with SB-appointed managers. They remained dependent on sub-contracts, firstly shoe upper closing, which provided stable work but led to increasing direct involvement by the company providing the contract in the organisation of work at Fakenham. This involvement eventually culminated in a takeover bid, which was rejected because it was

> a terrifying prospect that having worked so hard for so long, having given up our weekends and evenings to meet delivery dates without pay, even taking severe wage cuts, it should all be for nothing more than to take the retrograde step of becoming again a satellite of a shoe company[35]

A downturn in the shoe industry early in 1975 meant that shoe contracts became increasingly difficult to obtain, and the major one was lost. This forced the co-op into accepting small unprofitable contracts which did little beyond keep the workforce intact in the short term.

The co-op then obtained a major contract machining dresses for another Norfolk clothing firm, but were essentially competing with outworkers and working for very low rates. It involved the installation of appropriate machines at Fakenham by the contracting firm, and provision of cut material for machining. Although this contract endured for some time, as it progressed it involved increasingly direct control by the capitalist firm. This started with deciding the layout of that part of the factory doing the dress machining, then control over the work carried out by the dress machinists, and finally paying the wages of these workers directly rather than through the co-op structure. This involved a change from flat-rate wages to piece rates. The rest of the co-op was becoming increasingly marginalised; the dress contract gave little contribution to overheads, and although it provided steady work it did not provide sufficient surplus to enable the development of the co-op's own products.

35 Letter from Fakenham workers to ICOM, 1974.

Over a period of a year, dependence on this contract marked a takeover of the co-op by capital and direct employment of the majority of co-op workers as wage labour. Because of the weak economic position of the co-op there was very little that could be done to resist this, and by early 1976 the Fakenham Enterprises co-op existed in name only, with no work other than the dress contract.

The story of the Fakenham co-op is one of failure to break out of an adverse economic position, with this situation dominating all other aspects of the co-op's operation. The problems were exacerbated by a lack of some necessary skills and of finance; but maintenance of the co-op was dependent on changing the co-ops economic relationships - moving into new products and markets. This in turn required external assistance, but the most substantial - that provided by Scott Bader - was never really orientated towards changing these economic relationships, only to making the co-op more competitive in its existing, highly dependent relationships.

The importance of Fakenham's market position and its impact on the co-op's development was anticipated in Part I and ties in with the findings from printing co-ops. One of the most significant aspects of Fakenham is the extent to which the women did succeed in changing their immediate working environment and gaining limited control over the labour process despite adverse economic conditions. The achievement of this by women almost unaided in an economy and society dominated by men is also striking, and although there are some important and encouraging lessons for women in the clothing industry, the hopelessness of their economic situation illustrated the constraints on any long-term success in these areas..

Recent clothing co-ops

The experience of Fakenham provides an extreme example of the difficulties involved in establishing a co-op out of a factory closure in a declining industry. More recent co-ops have had a mixed record, but reflect attempts have faced similar problems, but reflect many elements of the Fakenham experience, both in terms of origins and vulnerability. One which has had some success is a shoe manufacturing co-op established in Minehead when Clarks closed a factory there. The co-op was established by a few of the redundant workers, desperately short of finance and skills, but with support from the local community, and capital equipment leased from the former owners on terms which, in the circumstances, were reasonable. The co-op eventually received some state funding, (through CoSIRA[36]), but provided jobs for only 20 of the original 200 workers. It provides a classic example of a dependent small firm, reliant upon the former owners for the majority of work, and although the co-op has survived it has always been commercially marginal:

> Clarks were quick to utilise the flexibility and reduction in overheads, commitments and labour costs resulting from putting out .... by imposing stringent conditions on the type of shoes that the co-operative could produce, Clarks contributed to the situation whereby the co-operative, unable to develop its own markets, was desperate for contract work[37].

However the Minehead Shoe Co-op continues to operate and has avoided the fate of some similar ventures. In 1978 a number of women workers were made redundant from a large clothing firm in Ayrshire; 12 of them formed the *Doon Valley* co-operative at the suggestion of their former employer, who offered them cut, make and trim sub-contract work. Living in a rural area the women had little alternative opportunities for work, but the co-op lacked both finance and management skills - like Fakenham - and hence had little hope of survival or development in the vulnerable CMT market. Although some assistance was obtained from the local authority, the co-op eventually collapsed. The case of Doon Valley represents a particularly extreme example of capital making use of co-operatives in its own interests during restructuring.

Another example of the difficulties of establishing a co-op in CMT work is that of *Dowlais Knitwear*[38]. In 1976 Courtaulds closed down a hosiery factory in Myrthyr Tydfil, making several hundred workers redundant. An attempt was launched by a group of workers to preserve some jobs; rather than remain in hosiery production - which was a depressed industry and relatively capital intensive - they decided to form a co-op in the associated area of CMT clothing manufacture. The co-op was not launched immediately but some time was spent making a successful application for MSC funds to cover wage costs in the start-up period, and it was eventually established in 1978 with 12 women workers. Despite the MSC funding the co-op soon faced difficulties; although CMT is relatively simple, the skills required are different to those in hosiery manufacture, and the highly competitive nature of CMT and consequent low prices meant that the co-op operated at a loss. There were also endless problems - like Fakenham - in recruiting a manager who was both competent and

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36 Council for Small Industries in Rural Areas.

37 Carter, 1987, p. 356.

38 Cornforth, 1981.

committed to working in a co-op. It was appreciated that CMT did not offer the co-op long term stability, but the MSC was not geared to financing the move into own-design production and this remained elusive. Caught in the trap of low value CMT contracts, low wages and lack of investment, the co-op contracted sharply after the end of MSC funding and eventually collapsed.

In 1980 the co-op *Louise Argyle* was formed on Tyneside when a capitalist clothing firm went bankrupt. Following a 10-day sit-in, a co-op was formed by 24 of the workers, with assistance from Tyne & Wear County Council (now abolished), who provided grants, loans and funds for a feasibility study. The original intention of the women - like those at Fakenham - was to move into 'own label' production, but they very quickly found themselves locked into the CMT subcontracting work typical of small clothing firms. Their subsequent existence has been marked by a continuing shortage of skills, finance and equipment, and consequent low productivity, problems which make success in CMT difficult and a switch into higher value products virtually impossible.

Despite the usual economic problems and vulnerability of CMT co-ops, Louise Argyle has survived for seven years and had a turnover of over £200,000 in 1986, providing work for 24 women. Their survival to date has been dependent upon continued local authority funding, but this has been orientated towards meeting trading losses and preserving jobs rather than restructuring to ensure long term viability. Within this difficult economic existence, there have been achievements in the nature of the labour process. At a basic level, workers are on wages rather than piece rates, which eases some of the direct experience of oppression. Despite the major problems and insecurity which have been faced, most of the workers have reacted positively to working in a co-op rather than in a capitalist firm. They have developed a high degree of self-confidence, both as workers against management and as women against men[39], which began to lead to increased awareness of wider political and social issues.

A further example of a marginal CMT co-op was that of *Happy Hands*, formed in West Glamorgan in 1980. Although some of the initial workers had been made redundant from other clothing factories, the co-op did not emerge directly from a closure; as a clothing co-op it is unusual in being a 'new start'. A lengthy period of planning and preparation was

39 Mellor & Stirling, 1984.

undertaken, and a £5,000 loan obtained from ICOF. This was crucial in avoiding typical problems of under-capitalisation; the co-op subsequently expanded from 6 to 28 workers, all women. The co-op survived on the basis of adequate capitalisation and efficiency, but remained in sub-contract work with all the associated vulnerability and uncertainty. Furthermore, it was restricted to machining, the least skilled part of manufacturing, lacking the skills and resources to undertake cutting, trimming and finishing, which reduced value added even further. The co-op did attempt to move into own-design work, linking up with a designer and starting to exhibit, but even with some funding assistance from the Welsh Development Agency this move was beyond the co-op's resources; it eventually collapsed in 1986.

Wages were low, in what is anyway a badly paid industry, and being vulnerable to customer defaults, in some weeks no wages were paid at all. Nevertheless, the co-op did illustrate some achievements which were possible in the clothing industry. The women secured some control over their work in basic but important matters: reorganising the layout of the factory so that machines faced each other and conversation was made easier, doing away with piece work and supervision, and rotating some of the administrative tasks. Perhaps most important achievement was flexible working hours, to cope with the needs of those caring for children.

Happy Hands was one of several clothing co-ops in Wales, where clothing is now the most important sector of co-op activity; at the end of 1986 there were 9 clothing co-ops employing some 160 workers. However, the sector faces problems typical of small clothing firms and clothing co-ops. They are concentrated in CMT work, and lead a precarious existence, with a high turnover of businesses. During 1986, for instance, there was a sharp downturn in orders, and 4 clothing co-ops collapsed while the others faced major difficulties. In the same year 3 new clothing co-ops were created, including one formed by workers made redundant when their factory was closed by the multinational BTR.

As would be expected, the CMT co-ops lack the skills and financial resources to move out of subcontracting into producing their own ranges, and on their own are unlikely ever to be in a position to do so. In an attempt to overcome these problems, the Wales Co-op Centre is developing a strategy to aid clothing co-ops[40]. This would include specialist financial

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40 Wales Co-op Centre, Annual Report 1986.

assistance, access to computer-aided design and manufacturing (CAD/CAM) facilities, and the provision of design, management and marketing skills. Whilst this is an ambitious project, it could, if established, provide the crucial intervention and support which clothing co-ops have been lacking.

The record of co-ops in CMT subcontracting is mixed but generally poor: a high failure rate, ongoing commercial problems and constant vulnerability to changes in the level of activity in the clothing sector. Their poor performance in commercial terms is shown in Table 9.5. Although wages remain low, some have however managed to improve their working environment in an industry where poor conditions are the norm; reorganisation of factory layout is easy given the unsophisticated technology used, and because conventional layouts were developed as much to facilitate supervision as efficiency. Although there are examples of job rotation, the largely monotonous job content remains mostly unchanged. Workers do have a say in how the businesses is run and some small CMT co-ops do tend to operate democratically, but for much of the time the range of decisions which they have to make is effectively very limited by their marginal economic position.

At the other extreme are co-ops established in order to produce to own designs, competing in the fashion market. Although potentially more rewarding, there are perhaps even greater problems to faced than in CMT. The range of skills required is even greater - including design, marketing and distribution as well as manufacturing - and the market is volatile. Most 'new start' clothing co-ops have been in this area, usually very small (2-4 workers) and unstable. One of the more successful was *Ragged Robin*, a fashion co-op in Wales established in 1980, also with a loan from ICOF. It traded successfully for several years - exploiting the potential of direct sales through newspaper advertising - but folded in 1986. The greatest potential for fashion clothing co-ops is probably for those in Scotland and Wales which verge on 'craft' production, and for whom the market is relatively stable.

An intermediate position is occupied by perhaps the most successful clothing co-operatives, in commercial terms at least. These co-ops produce clothing to their own designs, marketing goods themselves, but operate in market segments which are relatively unchanging and not subject to the vagaries of fashion, and can sustain long production runs.

The example of the Scottish co-op *Randolph Leisurewear* is typical. It was formed by the workers at a factory in Buckhaven, Fife, making high quality outdoor wear, which was closed by its owners Clares Carlton in 1981. Convinced that there was still a market for their product, 19 workers succeeded in forming a co-op with the assistance of SCDC. Funding was obtained in the form of loans and grants from the SDA and local authorities, and although this was sufficient to cover the purchase of new machinery and materials, staff had to work for the first three months without pay - a classic case of 'sweat equity' required in an underfinanced co-op. By 1986 the co-op had expanded to 34 full-time and 22 part-time workers, again relatively large by clothing industry standards. Although there are weekly co-op meetings, it has a conventional capitalist management structure (in keeping with the trend where SCDC has been involved with supporting co-ops) and workers are obliged to contribute to individual capital stakes by deductions from wages. Randolph has benefited from the stability of a relatively unchanging market and major public sector purchasing (e.g. £70,000 pa sales to Severn Trent Water Authority) and now has an annual turnover of over £350,000 , although wages are relatively low.

Wilshaw Rainwear in Bradford operates in a similar market, also designing, manufacturing and marketing outdoor wear. The co-op obtained loan funding from the now-abolished West Yorkshire Metropolitan County Council on its formation in 1981. Like Randolph it has grown steadily and now has 40 workers and a turnover of around £200,000, and is exports its products directly.

Another Scottish clothing co-op, *Fife Fashions*, has benefited from similar conditions albeit in a different market sector. Following the closure of a clothing factory in Kircaldy several of the redundant workers approached SCDC for assistance in setting up a co-op making skirts and kilts; it was established with the aid of grants and loans from the SDA and local authorities. It has expanded steadily and in 1986 had 13 workers and a turnover of £125,000, and paid high wages.

Even with favourable market conditions success is not assured. Following the success of Fife Fashions and high demand for its products, an attempt was made to form a further co-op to in Fife when another clothing factory in Buckhaven closed down. However the *Fife Sewing Co-op* was badly organised and was never properly established, only lasting a short time before closing down in 1986.

WORKING CONDITIONS IN CO-OPS

One of the key issues concerning clothing co-ops is their impact on working conditions; under what conditions can they improve upon the poor conditions which prevail in many areas of the clothing industry? This thesis has primarily concentrated upon the experience of co-ops as commercial enterprises, and internal aspects of co-ops have been given less prominence. However, the issue of conditions for co-op workers has been raised wherever possible; co-ops potentially offer an improved quality of work, but have emerged during a period of restructuring which has stimulated small firms as part of an attack on working conditions in large-scale unionised industries. The ability of co-ops to make achievements in this area is not assured. The issue is particularly relevant to clothing co-ops, in view of the generally poor conditions of work which prevail in many areas of the clothing industry; can they offer improved conditions for workers, or is this precluded by their precarious economic position? I will firstly make some general points on the issue before returning specifically to clothing co-ops.

Many studies on this subject have concluded that co-ops can indeed offer improved conditions for the workers immediately involved, compared to their likely alternatives. A more egalitarian division of labour, less oppressive working environment, and the opportunity to participate in decisions concerning their work are frequent benefits, although countered by lower wages than could probably be expected elsewhere. There is also likely to be added flexibility in co-op working. This point can particularly apply to those raising children - mostly women in our present society - who are more able to organise their work around the rest of their lives, rather than vice versa.

As co-ops become larger these improved working conditions are likely to change their form, manifested in higher wages and shorter hours, with the benefits of participation reduced, and the labour process coming to resemble more and more that which characterises capitalist firms[41]. Whether or not this makes working in a co-op more satisfying is uncertain; it is reported from Scott Bader, Britain's largest co-op that

> the evidence is [not] clear cut .... some people appear to find the experience of co-operative working a satisfying one, some perceive it to be virtually indistinguishable from working in a traditional business, others become cynical and disillusioned[42].

41 see e.g. Hacker (1988) for experience of this at Mondragon.
42 Oliver, 1987.

Even on the level of democratic worker control - in which co-ops should be able to easily offer greater achievements - success is not assured. Fairclough has charted the democratic degeneration of the Triumph Meriden co-operative, and recounts the following complaint by a co-op worker:

> As I see it there is no co-operative operating at Meriden and no consultation with any of the workforce. There is more consultation in any other factory in Coventry than there is here at Meriden.

Fairclough proceeds to note the link between this and the commercial weakness of the co-op:

> even some of the worker leaders realised that they were powerless in affecting the outcomes of the commercial negotiations which were conducted from a position of economic weakness and which seemed to throw the character of the co-operative around like chaff in the wind[44].

Similar complaints regarding the failure to develop any democratic input by workers were echoed at the Taunton Shirt Co-op after its eventual collapse.

Certainly some clothing co-ops have made achievements in terms of flexibility of working conditions and the organisation of production on workers' terms. These may seem small and insignificant - such as reorganising the layout of the factory and improving the work 'atmosphere' - but where working conditions are generally so poor, then any improvements should be valued. A more important change is the ending of piece rates, but this is vulnerable to economic pressures. At the same time there can also be much greater stress in co-ops. Where co-ops are commercially weak, and survival is dependent upon sweated labour - long hours, low wages, unpaid overtime and poor working conditions - then workers can spend much of their time worrying about the survival of their co-op and their livelihoods. Examples of the benefits of co-op working are countered by opposite experiences and on balance there is no reason to believe that working in a co-operative is *necessarily* an uplifting experience. What is certain though is that economic insecurity will exacerbate the difficulties workers face. At Fakenham, for instance, where the whole of the co-op's existence was marked by a struggle for survival:

> the co-op's ultimate demise left the women embittered and pessimistic about the possibilities for change. Whatever the potential for political radicalisation

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43 Fairclough, 1986b.

44 Fairclough, 1986, p. 25.

> in a worker controlled enterprise, a failed attempt of this kind may actually increase workers' sense of powerlessness.[45]

And after several years spent studying the Minehead Shoe Co-op, Carter concluded that alternatives to capitalist organisation were possible but that "it also distressed me to see the trade-off in hard work and insecurity that these remarkable people had to endure"[46]. And in the context of Fakenham womens' experiences, Wajcman goes on to ask:

> Why, then, should working class people want to take on the responsibility for the viability of the enterprises in which they work by setting up co-operatives? That the question is rarely asked is in itself significant - being symptomatic of a number of middle-class assumptions of the nature of work. In particular, implicit in leftist discussions about workers' co-operatives is the assumption that having responsibility at work is desirable in itself. .... Acquiring greater control over the workplace would indeed advance the struggle for job security, decent wages and work conditions but ownership is not a necessary concomitant, nor even the best means of achieving it. In general workers do not have the confidence, the skills or the financial resources to want to take on the risks consequent on ownership of their workplaces[47].

In view of these types of problems, women involved in another struggle for jobs in the clothing industry decided not to pursue the idea of forming a co-operative:

> the workers at Lee Jeans .... occupied their factory in Greenock, Scotland, for seven months to protest against closure. Although the formation of a co-operative was suggested to the women, they were extremely reluctant to take on the responsibility involved. In the event a new private owner came forward, which was the best outcome so far as the workforce was concerned. They wanted an end to their struggle, not a continuation of it[48].

There can be no doubt that the negative aspects of working in a co-op will be exacerbated by unsupported competition in a market environment: most difficulties result from the strain of trying to keep a co-op afloat in the face of commercial weakness and recurring financial problems, with concern over whether or not wages can be paid or jobs are secure. It is no coincidence that many reports on the negative aspects of co-op working come from clothing co-ops, which are amongst the weakest.

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45 Wajcman, 1983, p. 182.
46 Carter, 1987, p. 16.
47 ibid. p. 186.
48 ibid. p. 187.

CONCLUDING REMARKS

The experience of clothing co-ops is primarily indicative of conditions facing the majority of small firms in the clothing industry. Entry to the industry is relatively easy, with low capital and skill requirements, and furthermore long term decline and unemployment means that there are many workers who may consider the option of setting up a co-op. However, for both small firms and co-ops there is a high turnover of businesses, and their existence is often short and brutal. They face the prospect of chronic instability, with poor commercial performance, vulnerability to fluctuations in trade, a low potential to accumulate, low wages and a high degree of dependence upon larger firms.

The structure of the industry means that most small clothing firms are locked into CMT, and the pressures on small enterprises are even more intense for co-ops. They tend to lack finance and skills, and as a result are often restricted to machining, the least rewarding and skilled part of the manufacturing process. The co-ops tend to be less productive than other firms, and although wages are only slightly lower than the average, this is achieved at the expense of accumulation, and therefore the position is not sustainable in the longer term. For most, the preoccupation is with survival, and there is little or no prospect of breaking out of this existence on their own; to date there have been no examples of this happening.

Despite this rather bleak scenario, clothing co-ops have made some achievements. In some, women have exploited the limited potential for reorganisation of work to meet their own needs, and have undoubtedly made improvements in the generally appalling conditions of work typical of the clothing industry, even if co-ops remain economically weak. These achievements should not be underestimated, in an industry where other opportunities for women are few and the exploitation of workers is severe. Clothing co-ops are clearly not going to transform the industry alone, but they can offer benefits for the workers immediately involved.

The survival of any form of enterprise in a capitalist economy is dependent upon the ability to accumulate. Clothing co-ops in CMT are failing to do so, and thus have not secured the conditions for an independent existence. As a result their relationships with the public sector are crucial. Until now, support has come in the form of initial financial provision, which has been crucial to their establishment and survival, given that co-op workers have no access to equity capital, cannot provide significant quantities on their own, and are unlikely to be able to raise commercial finance. Beyond mere survival, the sector is dependent upon the public sector for more progressive restructuring. In the longer term, competitive pressures on small underfinanced clothing firms will increase, as larger firms employ more advanced manufacturing systems and increase productivity, and this will reduce wages and working conditions in labour-intensive enterprises even further. Without a national level strategy for the industry, clothing co-ops must still look to the public sector for the only chance to escape sinking further into the marginal and highly oppressive sweated sector.

Those clothing co-ops which have been more successful in commercial terms have been those which are not in highly dependent relationships with large firms. They have succeeded in carving out some form of monopolistic market position where competition is not so intense, which gives them more commercial flexibility and independence, although they do have higher skill requirements. They do tend to be highly dependent upon public sector support at the beginning, often arising from closures, but are likely to be more stable in the longer term.

Table 9.5 Individual clothing co-ops

Year	*Age*	*Output* (£)	*Net value added per worker* (£)	*Average wage* (£)	*Wages as % of VA* (%)	*Net VA/ fixed assets* (£)	*Fixed assets per worker* (£)
ALL CLOTHING CO-OPS							
1978	1	35.21	..	..	..	2.807	..
1979	1	59.94	2006	2650	132.1	5.642	356
1980	4	100.05	2711	3732	137.7	6.042	786
1981	6	320.43	1766	1586	89.8	3.568	436
1982	8	519.56	2512	2862	113.9	5.005	452
1983	10	933.61	3244	3227	99.5	10.200	318
1984	7	603.00	2780	2992	107.6	8.526	326
BARGOED BLOUSE							
1982	2	71418	2682	2625	97.88	21.50	124.8
1984	4	99685	2587	2799	108.19	82.81	31.2
1986	6	138278	2887	3096	107.25	43.80	65.9
FIFE FASHIONS							
1984	1	69832	3967	3263	82.24	2.48	1600.5
1985	2	92535	4566	5523	120.96	3.39	1347.7
GRANTHAM ENTERPRISES							
1979	2	59944	2006	2650	132.08	5.64	355.6
1980	3	57720	3497	4334	123.94	6.01	581.6
1982	5	12384	1003	1038	103.49	1.14	876.7
HAPPY HANDS							
1981	2	0	0	0	..	..	0.0
1982	3	15531	..	..	187.94	3.92	..
1983	4	31790	1692	2211	112.66	11.94	164.4
LOUISE ARGYLE							
1982	2	43893	..	..	159.39	2.55	..
1984	4	98743	4162	4385	105.34	10.79	385.8
1986	6	199101	7362	7265	98.68	11.40	646.0
MINEHEAD SHOE CO-OP							
1983	1	89694	3829	3528	92.12	15.22	251.6
1984	2	96339	3601	3983	110.61	16.93	212.6
RAGGED ROBIN							
1981	2	24927	1606	1600	99.61	6.15	261.0
1983	4	42398	2953	2978	100.85	5.11	577.5

continued ....

Table 9.5 *continued*

Year	*Age*	*Output* (£)	*Net value added per worker* (£)	*Average wage* (£)	*Wages as % of VA* (%)	*Net VA/ fixed assets* (£)	*Fixed assets per worker* (£)
RANDOLPH LEISUREWEAR							
1981	1	134712	1879	1563	83.22	2.51	748.4
1982	2	198162	1862	2828	151.91	2.95	631.2
1983	3	346736	3358	2955	88.00	5.68	591.4
WILSHAW RAINWEAR							
1981	1	55712	1684	1605	95.30	10.21	165.0
1983	3	135163	2809	3062	108.99	13.05	215.3
1985	5	173778	3336	3450	103.43	23.56	141.6

Source: own data

10. Wholefood Co-operatives

INTRODUCTION

The third industry of co-op activity selected is the wholefood distribution sector, comprising co-ops in both the wholesale and retail trades[1]. There are a number of reasons why this sector is of interest. Firstly, it appears to provide an example of the third type of activity in Schutt & Whittington's classification - independent small firms operating in a peripheral area ignored by larger firms. Secondly, it is the largest single area of worker co-op activity, and was developed relatively early in the current period of co-op growth. Thirdly, it is a new industry, and is firmly associated with the 'alternative' movement, which has had a strong overall influence on new co-ops. This provides a contrast to the established printing and clothing industries, and their long-standing association with worker co-op activity. The chapter begins with a brief review of the wholefood distribution industry and its relationship to the food industry in general, before examining the experience of wholefood co-ops in more detail.

THE FOOD INDUSTRY

The postwar period has seen a transformation of the food industry in Britain. Once a net food importer, Britain now produces a surplus to contribute to European food mountains. While food policy can be viewed as a quantitative success, there have been major changes not only in the amount of food we produce, but the type of food that we eat as well. Increased processing of food has accompanied increased production, and the food industry's failure has been the impact of these trends on peoples' health despite ostensible improvements in food production. The negative qualitative aspect of food production and consumption is being exacerbated by an increasingly unequal distribution of income, and the poor nutritional quality of the diets of those on low incomes; it appears that things have deteriorated since Orwell commented in the 1930s that capitalism was attempting to poison the working class with processed foods.

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1 *These worker co-ops are distinct from the older retail and wholesale consumer co-ops, such as the CWS, CRS and other co-operative societies, which are ultimately controlled by their customers and have employees. Our concern is with worker co-ops engaged in wholesale or retail activity.*

Food production, processing and distribution is increasingly concentrated in the hands of large national and multinational companies. Although the need to maintain and increase profitability in the industry has led to takeovers and centralisation, there is very little scope for increasing profits through sales growth; in Britain the volume of food consumed is relatively unaffected by changes in disposable income. Major retailers have concentrated on increasing their efficiency, aided by the development of computerised systems of stock control, and the domination of increasingly large multiple retailers. On the production side changes have been concentrated on increasing the scope of food processing. This increases value added but also extends shelf-life, and also results in standardised, mass-produced items which are suitable for promotion in extensive and expensive advertising campaigns.

In the process food products have been transformed. Extending the scope of food processing has been associated with the increasing use of additives - preservatives, flavouring, colouring and much more - both to replace the natural goodness processed out of food and to extend shelf life. At the same time the food industry has used advertising and elaborate packaging to change tastes and eating habits in order to make these products acceptable to consumers. Besides changes in the type of food, there has also been a change in the location of its consumption. Eating out of the home is higher than ever before, with particularly rapid growth at the convenience/fast food end of the market[2].

Food and health

The long postwar boom in the industrialised countries, with its rising living standards and relative affluence, led to the widespread belief that food and nutrition were no longer a political issue. The rarity of queues and mass outbreaks of food poisoning fostered the belief that the impact of food consumption on public health was minimal[3]. But as with many other supposedly 'consensus' issues, the perception of food and nutrition has changed markedly over the past 5-10 years. There is a growing understanding of the links between food, fitness and health, which are increasingly becoming items of mass concern. In 1977 a committee of the U.S. senate, chaired by George McGovern, reported on the links between diet and health. The McGovern Report highlighted the role of excess consumption of fat, sugar and salt in causing heart disease, cancer, obesity and stroke - all killer diseases. Between 1968 and 1978 twenty expert committee reports on health and dietry goals had been published in

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2 Wiggins & Snell, 1986; CAG, 1986.
3 Walker & Cannon, 1985, p.1.

the west, all with a similar message. In Britain the National Advisory Committee on Nutrition Education (NACNE) was established by the DHSS in 1979, to provide 'simple and accurate information on nutrition'[4]. The first draft of the NACNE report was presented in 1981, recommending that the British diet was too high in sugars, salt and fats, and too low in fibre. It caused uproar, generating enormous opposition from the British food industry (particularly from the industry-funded British Nutrition Foundation), and was effectively suppressed by the DHSS. Its message could not be concealed, however, receiving extensive coverage in the *Sunday Times*. Combined with the effects of the American experience, where dietry recommendations had been taken more seriously with positive effects on health, public interest and awareness had been aroused. The *F-Plan Diet* sold over a million copies in the UK and familiarised a mass audience with the importance of a low-fat, high fibre diet. Concern has also been focused on the health problems resulting from food additives, ranging from sugar to colourings, flavourings and preservatives. Many have been identified as positively harmful - e.g. as carcinogens or allergy-inducers - and there is a growing body of opinion that views such additives as largely unnecessary (even when not actively harmful), and being primarily in the interests of producers rather than consumers. At the same time widespread concern about factory farming, environmental pollution from pesticides, herbicides and artificial fertilisers, combined with the trends described above have contributed to recent growth in vegetarianism and demand for organic foods[5].

Wholefoods

Wholefoods can be defined as: "Pure, unadulterated foods, most of which are unprocessed. Those that are processed have undergone minimal change and contain no additives or preservatives. The few that have undergone considerable transformation (e.g. the soy products) are based entirely on natural ingredients."[6]. Recent interest in wholefoods began with the 'alternative' culture of the 1960s and 1970s, where concern with diet was part of the rejection of the material and moral values of western society. Many of those involved became vegetarians and relied upon an essentially wholefood diet. Although consumption of wholefoods did continue to increase the interest was by and large confined to a fringe culture, and it was not until the diet/health links received greater attention that interest began to spread to the wider population.

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4 ibid., p.xv.
5 CAC, 1986, p.13.
6 ibid.

This movement is difficult to quantify. Accurate figures for the consumption of wholefoods are difficult to come by. Standard sources (e.g. *Business Monitor*) do not distinguish wholefoods from other foods, and CAG report that 'the health and wholefood business is the least researched part of the UK food business'[7]. However, CAG do report that turnover in all healthfood and wholefood items increased from £30m in 1973 to £220m in 1983, indicating very rapid growth[8]. A few wholefood items (such as wholemeal bread and yoghurt) do enter into market surveys, and the trends in sales of such items are steadily upward.

The industry fights back - healthfoods

For many years the conventional food industry regarded wholefoods as an eccentric and marginal niche, unworthy of significant attention, except perhaps for companies such as Whitworths with interests in dried fruit and pulses. Over the last few years the situation has changed somewhat and in view of the steadily rising trend in consumption of wholefoods, coupled with with decreasing consumption of fatty and processed foods, the industry has come to regard wholefoods as both a threat and an opportunity.

In fact the rising consumption of wholefoods is a change probably without precedent in the history of capitalist food production. Previous developments have all involved an extension of the processing of food, enabling further standardisation and advertising, with nutritional needs frequently sacrificed. Wholefoods represent a reversal of this process, in that they involve *less* processing and packaging rather than more.

As such they represent a challenge to the conventional food industry. Major companies are not well placed to take advantage of changing trends in consumption of wholefoods, however. With production strategies based on mass-produced, processed and (artificially) preserved foods, they are not well placed to take advantage of demand for food where 'freshness' and lack of processing and additives are paramount. The lack of product differentiation in unprocessed food also undermines the industry's ability to influence consumer tastes through advertising.

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7 ibid., p.3.

8 This represents a growth rate of 22% per annum in nominal terms. The food price index has increased from 67.4 to 231.6 (1975=100) over the same period, giving a real sales figure of £44.5m for 1973 and £95.0m for 1983, at 1975 prices, and an average real annual growth rate of 8%.

Of course there are exceptions; in particular Britain's two major bakers, RHM and Associated Bakers, have been able to move rapidly into the production of wholemeal bread. Others have aimed at those parts of the wholefood market where some processing is carried out: wholefood snack bars, and soya-based products in particular. Retailers have taken advantage of changing tastes in developing new promotional strategies (leading to the somewhat ridiculous situation where the British Sugar Corporation is promoting white sugar on the basis of it being 'additive free'!). An alternative strategy is to manipulate consumer tastes towards products which can be exploited by major companies. One area where this is taking place is in 'healthfoods'; although they have some similarities with wholefoods, they are often adulterated (e.g. with added sugar) or more highly processed and refined. Healthfoods also include vitamin and dietry supplements.

The production and sale of healthfoods contributes to higher rate of profit for the food processing companies; it is itself a form of food processing and lends itself to product differentiation through fancy packaging, advertising and promotional exercises. This is in contrast to the transportation, simple repackaging and distribution involved with the majority of wholefoods. Of major importance in this area is the activity of the UK multinational Booker McConnell, who own both the Holland & Barrett chain of shops and major distributor Brewhurst. Booker's move into wholefoods and healthfoods coincided with steady decline in their major sugar interests and they have been at the forefront of attempts to merge the wholefood and healthfood markets. In April 1986 the trade journal *Natural Food Trader* (until recently owned by Booker McConnell) noted that the distinction between wholefoods and healthfoods was becoming blurred. Traditionally, advocates of the former have argued that a diet of fresh and unprocessed foods was sufficient for nutrition without resort to dietry supplements.

Industry structure

The wholefood and healthfood industry has undergone a rapid transformation over past decade, changing from a marginal, specialist market to a mass market; this has been accompanied by a similar major change in the structure of capitalist competition. Until the mid-1980s Booker was the major company in wholesale, retail and manufacturing. On the retail side Booker McConnell owns the nationwide chain of 227 Holland & Barrett shops. It has also established Realfare, a marketing and supply 'membership group' which it supplies through its Brewhurst subsidiary. Membership in 1983 was 680 shops, representing

47% of health and wholefood shops[9]. Booker's wholesale operation, Brewhurst, is the country's largest distributor of health and wholefood products[10].

Besides Booker, there are a variety of independent firms of varying sizes, in both wholesaling and retailing. Many of these started off small, and benefited from the rapid growth of the market in the late 1970s and early 1980s.

As the market has continued to grow steadily, it has been transformed by the entry of major supermarket retailers. In food retailing generally, the rise of multiples and larger stores has been the dominant characteristic of the past decade: "in 1975, 9,000 multiples accounted for 44% of the grocery market; by 1985 4,000 multiple outlets accounted for 68%"[11], controlled by just 42 buying points[12]. While the multiples have been increasing their share of the retail grocery market, wholesalers have also been squeezed as over 70% of retail grocery turnover is supplied direct from manufacturers. No specific figures are available for the increase in wholefood sales in multiples, but it seems safe to assume that their share has increased substantially. This has squeezed the independent wholesalers and retailers, who are largely unable to compete with multiples in price terms; the latter also benefit further from offering extra convenience and comprehensive ranges. The pressure on wholefood wholesalers is illustrated by Booker's recent decision to reduce emphasis on distribution of wholefoods because of reduced profitability following increased competition from multiples[13], and their decision to concentrate upon high-margin healthfood products.

WHOLEFOOD CO-OPERATIVES

Early days in the 'new' co-op movement

The origins of the wholefood co-op sector lie in the 1970s. At that time, some members of the 'alternative movement' were seeking an appropriate structure for emerging commercial activities, which included bookshops, publishing and printing, besides the selling of wholefoods. Initially many of these enterprises were organised as unincorporated collectives, but later the co-op structure proved suitable when formal incorporation was

9 *CAG, 1986, p.3.*
10 *ibid., p.4*
11 *London Food News, Autumn 1987.*
12 *IGD, 1985.*
13 *Financial Times 3.3.88.*

required. This was assisted by the development of model rules by ICOM in the mid-1970s. The importance of such alternative co-ops was noted in 1981 by Thornley, pointing out that "more than half of the 300 or so co-operatives existing are engaged in some aspect of the alternative movement.

The alternative movement emerged as a reaction to the exploitation of western capitalism, seeking an alternative to a lifestyle that was perceived to be alienating, destructive and materialistic; it was essentially a product of affluence and those involved predominantly had bourgeois, middle class roots. As a result, rejection and protest was not initially directed into support for the labour movement and class politics, but into anarchism and single issue campaigns around ecology, peace and anti-nuclear issues, and to a lesser extent the womens movement.

Support for and promotion of wholefoods was prominent in the alternative movement, both for reasons of diet and health and the wish of vegetarians and vegans to avoid exploiting animals. But it was part of a total lifestyle, which rejected hierarchies in favour of collective living and working. This had implications for the operations of the emerging co-ops; they were committed to "small scale production and distribution, collective practice, and an extension of the function of 'shop' in an industrial society to being part of the community"[14].

Although alternative co-ops were concerned with commercial activity, the products involved were largely 'political', and furthermore, collective working was central to the operation of these businesses. Thus typical objectives of the early wholefood co-ops included the establishment of alternatives to conventional employment in hierarchically structured organisations and businesses, organising work in a collective egalitarian manner. Their aim was to promote an alternative lifestyle rather than defend jobs *per se*, but it was also hoped that such activity would provide a catalyst for more co-ops, providing non-alienating work for increasing numbers of people. Objectives also included the promotion of desirable social changes in the community, and this extended to the nature of products sold. The co-ops aimed to 'promote the wholefood revolution', with the initial objective often being to meet a perceived social need, rather than pursue commercial aims. In line with this 'service' objective, many co-ops aimed to keep prices down so as to make wholefoods available cheaply to as many people as possible, especially poorer members of the

14 Anna Whyatt, co-founder of SUMA, quoted in Thornley, 1981, p.105.

community. Subsidiary aims included encouraging local farmers to produce wholefoods and organic produce, the promotion of 'ecologically friendly' products, and to avoid buying from parts of the third world where exploitation of labour was seen as particularly severe[15].

In some ways wholefood co-operatives follow on from a long tradition in the wider co-operative movement, in that many consumer co-operatives were originally established to make available cheap unadulterated foods to the working class.

Collective activity and mutual support

In the mid-seventies the worker co-operative movement lacked infrastructure. The small remnant of the industrial co-operative movement from the nineteenth century was largely inactive and in any case not considered relevant by the new co-operative movement - which had little in common with the industrial working class base of the former. Local authority support was virtually non-existent, and local CSO's had not yet been formed in any great number. ICOM was in existence, however, as a membership organisation and provided the model rules under which most worker co-operatives were incorporated, as Industrial and Provident Societies.

Collective activity was extended from within co-ops to become an important principle of relationships between co-ops. "Wanting to increase their influence in society, they are loath to see any co-operative isolated in an environment hostile to co-operative principles and to the sector's capital growth. The wholefood movement has defended itself against competition by forming federations and by trying to set up co-operatives at every stage in the food business from farming through to sales"[16].

One of the early efforts in this direction came in the mid-1970s when several wholefood shops in the north of England formed the Federation of Northern Wholefood Co-operatives. The aim of this federation was to strengthen individual members - who had common needs and therefore could benefit from common initiatives - through the sharing of knowledge and experience, and in some cases the provision of financial support. As part of this process the FNWC made a decision to establish co-operatively run wholesale warehouses, which would in turn offer the shops a wide range of goods based on bulk buying and efficient

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15 Woolham, 1986.
16 Thornley, 1981, p.105.

distribution[17]. The first of these wholesale co-operatives, Suma, was established in Leeds in 1975, with a second, Green City, established in Glasgow in 1978. More recently, Suma, Green City and other wholefood wholesale co-operatives established the Federation of Wholefood Wholesale Co-ops. This is an attempt to formalise current arrangements between the wholesalers, who by and large do not compete geographically and who undertake some inter-trading[18].

Formation and survival

Formation

Of all co-op formations recorded from 1970 to the end of 1980, some 18% were in wholefoods. This compares to a figure of 6% of total formations in wholefoods by the end of 1986, illustrating their prominence in the early days of recent co-op formations. By 1986 there were 68 wholefood co-ops; if a further 40 in catering are included, this is currently the largest single sector of worker co-op activity.

The prominence of wholefoods partly reflects the particular ideology of those involved in the industry, and their commitment to collective organisation, which meant that a high proportion of all businesses involved in wholefood distribution took the form of co-ops, particularly until the early 1980s. The formation of co-ops was also relatively easy from a financial point of view. Initial capital requirements were minimal: trade could commence with little fixed capital beyond suitable premises and a moderate level of stock, while working capital requirements were low given the typical willingness to work for low wages, and could be built up through the generation and retention of surpluses.

Sources of Finance

Nevertheless, even with low initial requirements, financing was potentially a problem, as many wholefood co-ops were formed prior to the establishment of CSOs and specialist loan funds. In addition, some 'alternative co-operators' were reluctant to approach banks for funding, and in any case, at that time banks would have shown even more suspicion towards co-ops than they do now. However, there was compensation in the availability of 'sympathetic' finance raised from private sources, from friends, supporters, or other co-ops.

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17 Howarth & Hazelwood, 1984.

18 Macfarlane, 1987, p.27.

Indeed, one function of the FNWC, and later of Suma, was to make small amounts available to new co-ops.

It was noted in chapter 6 that of the three sectors, wholefood co-ops were the most reliant upon private sources of finance, and that nearly half (45%) were totally reliant upon internal (members) funds in their first year. Over a longer period, wholefood co-ops made least overall use of commercial finance.

Survival Rate

In addition to being the largest co-op sector and established early on, wholefood co-ops have demonstrated a very high survival rate, of nearly 80% (see Table 10.1)[19]. This is significantly higher than the overall survival rate of 66%, better than that of printing and clothing co-ops, (72% and 52% respectively), and higher than the 68% survival rate of wholesale and retail co-ops overall[20].

Table 10.1 Formation and survival of wholefood co-ops to 1986;

Sector	*Co-ops formed*	*Co-ops surviving*	*(%)*	*Workers*
WF wholesale	10	12	83	..
WF retail	74	58	78	..
WF wholesale & retail	86	68	79	532
All wholesale & retail	252	172	68	928
Services	361	249	69.0	1266
Production	361	243	67.3	2250
Total	1330	880	66.2	5455

Source: London ICOM (1987), and own calculations

We have seen in earlier chapters that there has been a close relationship between survival and commercial performance; where the latter is poor, then understandably, it is more likely that co-ops will fail. The contrast between the performance of printing and clothing

19 This refers to the survival rate of businesses once registered as co-operatives; it excludes those which operated solely as collectives or informal partnerships, which may have had a higher failure rate; there may also be an element of self-selection, in that the more successful collectives were those which eventually became formally registered as co-ops.

20 See chapter 5. It is particularly impressive in that many wholefood co-ops were established early and thus a relatively high failure rate would be expected.

co-ops is confirmed in their very different survival rates. However, this relationship is not replicated in the wholefood sector, where - amongst retail co-ops at least - a high survival rate is associated with very poor commercial performance. The reasons for this will be examined later, but firstly the performance of wholefood co-ops is discussed below.

Commercial performance

In chapter 7 the performance of wholefood co-ops was examined as a whole, in comparison with printing and clothing. In this section, the results are disaggregated into the the retail and wholesale sub-sectors for more detailed analysis; results are presented below in Table 10.2.

Table 10.2 Performance of wholesale and retail co-ops *(constant (1985) prices).*

Year	*No.*		*Gross output (sector) (£'000)*		*Average output per co-op (£'000)*		*Average output per worker (£)*		*Net VA per per worker (£)*	
	R	*W*	*R*	*W*	*R*	*W*	*R*	*W*	*R*	*W*
1978	13	1	1207.8	1032.6	92.9	1032.6	15484	11473	2549	6366
1979	20	4	2028.8	2151.4	101.4	537.9	13947	53785	2266	5469
1980	28	4	2877.6	2576.8	102.8	644.2	14699	58565	2812	5029
1981	34	5	3495.6	3820.1	102.8	764.0	15300	70742	2507	6256
1982	36	6	4132.6	5755.3	114.8	959.2	16732	82219	3247	6023
1983	3	5	4598.5	6971.9	121.0	1394.4	17234	88252	3088	5845
1984	2	6	2987.8	8253.6	129.9	1375.6	17760	84220	3372	6291

Year	*Retained surplus /net VA (%)*		*Fixed assets per worker (£)*		*Net VA/ fixed assets*		*Average wage (£)*		*VA/output (%)*	
	R	*W*	*R*	*W*	*R*	*W*	*R*	*W*	*R*	*W*
1978	6.301	42.16	574.3	886.0	4.439	7.18	2389	3682	16.46	5.55
1979	-0.568	27.80	492.1	928.6	4.204	5.89	2312	3949	17.11	10.17
1980	3.949	18.17	589.3	3547.3	4.393	1.41	2663	4115	19.32	8.59
1981	-12.44	31.05	1000.5	4774.3	2.453	1.31	2842	4313	17.05	8.84
1982	10.419	28.81	1081.9	4404.2	3.034	1.36	2929	4287	20.16	7.33
1983	2.459	5.85	1285.7	6125.0	2.457	0.95	2951	5503	18.24	6.62
1984	6.388	8.92	1651.5	5438.1	2.158	1.15	3112	5729	19.92	7.47

Note: R=retail; W=wholesale

Source: own data

Two important results are apparent from an examination of these tables. Firstly, there is a major contrast between the performance of the two sub-sectors, and secondly, that although there have been some improvements in overall performance, this is not consistent, and in some respects there has been a deterioration.

Firstly, the contrast between the sectors. Moving immediately to net value added per worker[21], it is clear that wholesaling co-ops have been consistently more productive than those in retailing, with very roughly double the level of surplus generated. This enables the payment of significantly higher wages in wholesaling (on average two-thirds higher), and because the differential in wages is less than that in surplus generation, wholesale co-ops have been able to accumulate much more rapidly. Thus the level of fixed assets per worker in wholesaling increased by over 500% over the period, while in retailing the increase was less than 200%. This in turn has contributed to differences in the rate of growth; the mean output of wholesale co-ops increased at an average of 16% per annum in real terms over the period 1979-1984, whilst the comparable figure for retail co-ops was only 5%.

Secondly, we can see how performance has changed over time. It is apparent that in retail co-ops, there have been steady increases in output and net value added per worker, and in wage levels. Value added as a proportion of output has increased, and whilst the proportion of surplus which is retained and reinvested is small and fluctuating, it has not obviously diminished over time. Wholesale co-ops show a contrasting situation; output per worker has increased steadily (56% over 1979-84), but value added per worker has increased more slowly (15% over the same period), as the proportion of output realised as value added has steadily declined. Real wages have increased by 44%, substantially more than the increase in value added, and as a result retained surplus has steadily declined - although it remains consistently higher than in retail co-ops.

Wages, working conditions and working methods.

Wage levels

Wholefood distribution is not a well defined industry, and as a result of this - and also because it is not part of production - it is not possible to make any comparisons between the

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21 Output figures will inevitably differ between wholesaling and retailing because of the nature of the business in each.

performance of wholefood co-ops and that of the rest of the industry. The only area where comparisons are possible is with wages.

Table 10.3 shows wage levels in retail and wholesale distribution in comparison to those in wholefood co-ops. Several findings are clear. Firstly, wages in distribution are markedly lower that the averages for both all industries and all non-manufacturing industries. Secondly, and typically, wages for women are much lower than those for men across the board. Thirdly, taking wages in co-ops relative to capitalist firm averages, then wholefood wholesaling pays the highest wages; it is the only one of the sectors studied where co-op wages exceed the average wage level for women, and approach the figure for mens' wages. Fourthly, and confirming earlier results, wages in wholefood wholesaling co-ops are high by industry standards and are substantially above those in retailing; although wages in retailing generally are notoriously low, those in retail wholefood co-ops are particularly bad.

Table 10.3 Wages and hours worked in food distribution, 1984.

		All inds. *(SIC 0-9)*	*All non-mfg.* *(SIC 0,1,5-9)*	*Wholesale food dist.* *(SIC 617)*	*Retail food dist.* *(SIC 641)*
(mean)	M	152.3	148.1	138.8	129.3
Average	F	93.5	90.9	88.4	85.8
weekly					
wage (£)	M	143.3	138.5	131.4	121.2
(median)	F	88.6	85.1	84.6	79.7
Weekly	M	44.3	44.2	45.1	44.2
hours	F	39.4	38.9	39.8	38.9
(mean, inc. overtime)					
Co-op wages	..	..		106.8	58.0

Source: New Earnings Survey; own calculations.

These findings concerning wholefood co-op wages are confirmed by case study evidence. In his study of Suma Wholefoods[22], Macfarlane notes that wage levels are significantly above rates in the applicable Wages Council agreements. In 1982, workers at Suma received £100

22 *Macfarlane, 1987*

per week net (equivalent to perhaps £150-160 gross), compared to the following Wages Council figures for 1983 (gross weekly):

Drivers	£82
Warehousemen	£73
HGV drivers	£89

These figures suggest that Suma's rates were around double those of the Wages Council. However, it must be noted that other firms often pay wages above wages council agreements, and that Suma's workers probably work longer hours - overtime at Suma is unpaid, in contrast to other firms.

This picture is corroborated by a further case study of two wholefood co-ops in Brighton[23]. In one, a retail co-op, the rate of pay was £40 per week in 1986, whilst in the other, which was predominantly a wholesaler, wages ranged from £100 to £140 per week.

Working Conditions

The achievement of objectives besides commercial success and high wages has always been central to the operation of wholefood and other alternative co-ops; as well as promoting wholefoods, these have included the encouragement of active worker participation and democratic control. Thus the pursuit of job rotation and direct democracy have been important in achieving collective ideals. In fostering equality within co-ops, wage differentials have been low or non-existent, and where they exist they tend to reward experience and needs rather than job content. Equality for women within co-ops has been pursued, although this can sometimes be on male terms - for instance in 'enabling' women to do heavy manual jobs which are normally held by men.

Nevertheless, the willingness of workers in retail wholefood co-ops to work for low wage has been a crucial element in their high rate of survival, despite poor commercial performance. Despite many of them starting off, and remaining, small, low wages have enabled retail co-ops to meet other financial commitments and keep going where many other businesses would have folded.

23 Woolham, 1986

This situation results partly from deliberate choice, in that prices have been kept low so as to promote wholefoods and make them widely available; low levels of performance and wages were explained away "as the 'price' that had to be paid to fulfil the 'service' orientation of the collective"[24]. Commercial objectives were perceived as subsidiary to the more important aim of promoting both wholefoods and collective working. The willingness to accept low wages was also related to the type of workers involved; a large number were graduates,[25] with relatively affluent backgrounds, who had consciously rejected other, better paid and more materialistic career opportunities in favour of this kind of work. They contrast sharply with the women workers in clothing co-ops, forced into low-paying jobs with no alternatives.

The payment of low wages was widely accepted, at least initially, as necessary given the pursuit of other objectives. There was also a strong element of not wanting to grow, in the belief that growth "was incompatible with the desire to retain a small, relaxed and convivial working environment"[26]. In small co-ops it was relatively easy to sustain a collective approach, with effective rotation of workers between all jobs, and collective decision-making. This was facilitated by the low skill requirements in a small retail business which inhibited the emergence of a skill-based hierarchy; all of these achievements were considered vulnerable if growth was pursued.

Wholesale co-ops shared many similar objectives - the promotion of wholefoods and of a collective way of working, but from the beginning had a different approach; theirs was much more oriented towards growth as a means of survival. As a result they showed more concern with operating efficiently, and less willingness to accept indefinite self-exploitation, through the payment of low wages for long hours of work. Furthermore, because a wholesale operation was necessarily much larger than a retail one, the benefits of working with just a handful of people were not available. Rather than rely on the relative ease of working collectively in a small group, new methods had to be developed.

The development of collective working in larger wholefood co-ops has been pursued over a long period, and to give credit to their commitment there have been some successes. At Neals Yard Bakery - not a wholesaler, but a large co-op sharing a similar outlook - daily job

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24 ibid., p.9
25 In the 3 wholefood co-ops covered by the Woolham and Macfarlane case studies, a majority of workers were graduates.
26 Woolham, 1986.

rotation was maintained between virtually all tasks over a long period, and all major decisions taken by a collective meeting of all members. Suma has also been committed, and has evolved a unique structure which involves dividing the workforce into divisions carrying out related areas of work, where each division has total collective control over its own area of responsibilities. All jobs are rotated, even the more complex tasks such as buying, marketing, warehouse co-ordination and transport co-ordination. Acknowledging the amount of skill involved in these posts, the incumbent would do the job full-time and remain in the post for a longer period (perhaps one or two years) before moving on; this contrasts with the daily or weekly rotation of less complex tasks. Most workers do a variety of jobs in any week; one beneficial result is that workers soon become familiar with all types of work within the co-operative, and the potential for alienation is reduced as the more tedious and menial tasks are shared. Until now this has been organised in such a way that the benefits of both job rotation and efficient operation have been maintained. "It has been suggested that the arrangement has its inefficiencies; that many workers do not develop the level of skills or knowledge of the job that they would do if they worked continuously on one job . . . . . Nevertheless, of great importance for the members is the reality that the varied work diet makes the repetitive jobs more bearable for them, and the breadth of skills they obtain, and can hope to obtain, is rewarding. the reduction in the differences between the skill levels is an important contribution to equality in the co-operative"[27].

Suma has perhaps faced the most severe potential problems in sustaining collective working, being the largest wholefood co-op, with 36 members in 1988. However, it has also been in the forefront of avoiding this form of degeneration through the development of new working methods, and has shown a high level of commitment to preventing hierarchies, whether formal or informal. This contrasts with many other co-ops, where inactivity has frequently led to the emergence of informal hierarchies[28].

External relations - the co-op movement; trade unions

Despite the commitment to collective working, this has not generally extended to collective activity in class terms; in fact collectivity has been viewed in a remarkably individualistic manner. The underlying principle behind collective working "could be described as essentially a libertarian belief that the major purpose of the collective was to maximise the

27 Macfarlane, 1987, p.41.
28 Landry et al, 1985; Cornforth et al, 1988.

personal fulfilment of its members as individuals whilst at the same time fostering a sense of personal responsibility and mutual aid"[29]. Perhaps illustrating the anarchist basis to such beliefs, collective activity could largely be defined in terms of "freedom of the individual"; and the philosophy appears to differ from extreme-right libertarianism by its partial rejection of private property.

However, such individualism is an underlying weakness, in that society is also analysed in individual terms. Alienation is viewed in personal rather than class terms, encouraging "an ostrich attitude to politics"[30]. Social change is viewed as emerging through the gradual extension of similar activity (e.g. co-operatives, collective living) throughout society, by example and persuasion. Although the characters are different, the approach differs little from that of nineteenth century supporters of a co-operative commonwealth. Co-ops are considered as a third sector of the economy (although it may not be called this), distinct from the hierarchy and exploitation of the large enterprises and organisation of the public and private sectors.

ICOM became a natural focus of activity as a collectively controlled body representing worker co-ops. And although there were many cultural clashes, and differences over how co-ops should operate internally, the alternative and wholefood co-ops shared a belief in the 'third sector' and persuasion by example with the capitalists who had converted their companies to co-ops.

One result was that politicisation was directed towards their own lifestyle and work, rather than established political activity, and hence there was a reluctance to build links with the labour movement. There has been a distinctly cool attitude towards trade unions, because of the latters' association with hierarchy and the bureaucratic establishment. There is also support for the view (again common with the 'conversion capitalists' that trade unions are unnecessary in co-ops. As a result, and despite their collective ideals, union membership in wholefood co-ops is very low: around one third of co-ops, and 13% of workers, were unionised in 1986, compared with 55% and 34% for co-ops overall[31]. To be fair, however, this 'ostrich attitude' is not universal in wholefood co-ops. Suma workers do share a basic sympathy with trade unionism, and remain un-unionised largely because of a consistent

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29 Woolham, 1986, p.37.

30 Thornley, 1981, p.106.

31 Results from co-ops survey; see also chapter 5.

lack of enthusiasm towards co-ops on the part of the TU movement, and from a position generally unsympathetic to co-ops, Gregory notes that "the sight of the entire staff of our local wholefood collective regularly turning up to picket in freezing winter weather at a union recognition dispute was convincing proof that the retail trade does not invariably produce petty bourgeois attitudes."[32]

Market relations & relations with the industry

The ability of many wholefood co-ops to survive, even with low wages and profits, was assisted by the almost total lack of competition faced by many of these co-ops, in the early period at least. In the 1970s and early 1980s, the wholefood industry was regarded as a fringe activity by the bulk of the food industry. In terms of the Schutt & Whittington classification of small firms, wholefood suppliers were in the independent but marginal category - that is, relatively independent of large scale capital but competing in a marginal niche of the economy that large firms did not find it worthwhile to enter. Co-operatives found access to the market relatively easy, and in a rapidly growing sector have found success. At this time, a co-op or collective was the only source of wholefoods in many towns. Co-ops were amongst the earliest enterprises in the 'wholefood revolution' and must take some of the credit for the successful promotion of wholefoods and healthy eating into the national consciousness. Wholesale co-ops were in a similar situation, competing with other independent wholesalers and the one large operator - Booker - which was largely tied to its own retail markets.

The nature of market relations has been crucial for the success of wholefood co-ops, and of the wholesalers in particular. Although they faced competition from Booker and the independents, this was in the context of a market growing rapidly, at over 20% a year in real terms. Their more rapid growth than the co-op retailers, and higher margins, can also be traced to a different strategy - a deliberate attempt to reach as many people as possible and extend their influence through growth rather than through low prices. Suma has attempted strategies of both high and low prices, and found that the price level made relatively little impact on demand. furthermore, growth could take place without deliberate marketing strategies; as members of the co-op have said "we were in the right place at the right time"[33]. For many co-ops, increased business came largely as a result of unsatisfied demand that

32 *Gregory, 1979.*

33 *Macfarlane, 1987, p.20.*

needed little stimulation. This has now changed, and increased competition both from within the wholefood/healthfood sector and from multiples caught the co-op sector unprepared.

A second important reason for the wholesalers' success is the close links which they enjoyed with their customers, particularly the retail co-ops, which amounted to a partially protected market. This is analogous to the relationship between many of the old CPF producer co-ops and consumer co-ops, which the Webbs identified as being so beneficial to the former. In the 1970s, the shops which formed the FNWC accounted for 80% of Suma's turnover, and whilst there were not enough retail wholefood co-ops to provide a closed market for the rapidly growing wholesalers, the provision of a base demand sheltered from competition was crucial, especially in the early years.

The retail co-ops also enjoyed a partially protected market, receiving ideological backing from customers who share the same values. A survey of customers in 1987 found that over 50% were graduates, more than 10 times the national average[34]. Much custom is based on contacts with sympathisers and contacts with libertarian and left supporters of the alternative movement. In this, they are in a similar situation to the alternative print co-ops.

A third reason for success is that, unusually, the co-op form has proved to be a competitive advantage. This has particularly applied in the case of wholesalers. Macfarlane notes that

> Job rotation and collective management in Suma made an important contribution to Suma's service. It meant that most delivery drivers knew a great deal about the products being sold, and about the commercial side of the business. Add to this their contact with a wide range of shops (on their delivery routes) and it can be seen that the drivers were in an ideal position to provide help and advice to individual retailers and respond to commercial problems they were experiencing. So Suma has provided a quality of service that is unlikely to be matched by non-co-op wholefood wholesalers.[35]

Recent changes and developments

Wiggins and Snell[36] identify five major trends currently taking place in the food industry in general. The first is increasing centralisation and concentration, both in manufacturing and retailing. Secondly, diversification is taking place. Faced by static food markets and pressure

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34 Survey carried by Network of Wholefood Wholesalers, 1987.
35 Macfarlane, 1987, p.21.
36 Wiggins & Snell, 1986.

on profit margins, both manufacturers and retailers have to find new products to sell. The large food manufacturers are all now 'food and drink' companies rather than limited to a narrow range of products such as bread, beer or meat. Retailers are increasingly moving into the sale of non-food items.

Thirdly, companies are developing integrated systems of production and distribution, from farm to table. Many large companies have invested heavily in technological integration, gearing farming to processing needs. With a huge capital outlay one result is inflexibility, as one part of the process cannot be changed without threat to its other parts. Firms may have problems adapting to changing consumer demands - and hence devote much attention to making sure that those demands can be manipulated through advertising.

Fourthly, the food chain is lengthening, with more processes being carried out on food before consumption. This takes the form of more processed foods, or the provision a service with food - catering.

Fifthly, there is a fragmentation taking place in food consumption. There is a polarisation between low income 'subsistence' consumers demanding cheaper basic foods, and high wage consumers requiring greater variety and higher quality. Further fragmentation occurs through the development of food markets for ethnic minorities. Communities whose needs are not met by the large processors and distributors have virtually developed their own systems for the importation, processing and retailing of food.

Changing demand can produce 'gaps' in the market which major producers cannot profitably exploit due to the inflexibility of their capital-intensive manufacturing systems. In the past wholefoods have been one of these gaps which co-ops and small firms have been able to exploit successfully. Currently the mass food companies are attempting to move into this market - although they are here responding to consumer demand rather than creating it (consumer manipulation is aimed towards the expansion of the healthfood market).

For the wholefood co-ops, the question is whether they can survive this kind of intervention, both in wholesaling and retailing. By their nature, wholefoods are not an area which is particularly suited to the modes of operation of the large companies. After all, wholefoods became popular partly in resistance to the trends initiated by these companies. By nature of their 'freshness' and the lack of preservatives and processing included in their manufacture, the small scale and closeness to the consumer may be an important factor ensuring the long term survival of local wholefood co-ops.

An illustration of this trend is in the increasing popularity of organic foods - grown without artificial fertilisers or pesticides. Organic foods are unsuited to the mechanised and standardised farming activities of the major food companies, and are an example of a growing new and specialised market which they are too inflexible to take advantage of. This offers a market niche which in some ways reproduces introduction of wholefoods a decade earlier, and it is one which some co-ops have taken advantage, although on the retail side supermarkets are already active in this area.

The beneficial situation which aided the survival and growth of wholefood co-ops up to the early 1980s has not been sustained. This has been largely due to changes in external, market relations, and also to an unwillingness in some co-ops for workers to continue working indefinitely for low wages.

The very circumstances which contributed to the success of wholefood wholesalers and some retailers are also the source of changes affecting the sector in recent years. Any rapidly growing market where high profits can be made will eventually attract capitalist firms, and as wholefoods has developed into a mass market this is indeed what has happened. Firstly, other independent non-co-op firms entered, and more recently the role of supermarkets has been increasing. This has had a major impact; although the market is still growing, wholefoods is much more competitive and the co-ops find much more pressure on margins. No longer are they in a marginal niche, but are actively competing against larger firms.

Centralisation of capital is taking place very rapidly in both wholesale and retail distribution, leaving co-ops highly vulnerable. They tend to be undercapitalised and lacking in technical and managerial skills, facing a market whose pattern of trade is shifting from small retail outlets towards larger supermarket chains which are part of national or multinational capital. Although co-ops have survived thus far because of their sophisticated product knowledge, the high quality of products and service, and an ethical commitment to food and related subjects, this may not be sustainable as competition from supermarkets intensifies.

The impact of supermarkets is particularly crucial. They are increasingly dominating the food industry and determining its dynamic. Not only do they offer lower prices on the basis of bulk purchasing power and efficient operation, but they can offer a much broader range of products, including a wide range perishable commodities which many small retailers are not geared up for.

In addition, the food industry is attempting to manipulate the demand for 'healthy diet' products away from basic, unprocessed items, including wholefoods, towards differentiated, processed products, including healthfoods, which are more suitable for monopolistic, profit-oriented companies. This causes problems for the wholefood co-ops. Many of them object on principle to 'healthfoods' and refuse to deal with them, considering that the companies promoting them are not interested in providing the best available food for healthy and cheap eating, but "concentrate on expensive supplements, pills and medicines (all with a higher profit margin than food) and made-up foods ..... they cash in on their status as health food shops to sell food of no especial quality ..... at excessive prices to an overtrusting public"[37].

As consumer demand is manipulated towards these items, the relative importance of wholefood trade is reduced; this would tend to reduce the level of turnover which can be secured by co-ops, and ensures that their turnover consists of items with lower margins. as a result, competition with less principled capitalist firms becomes more difficult, and in order to survive many retail wholefood co-ops have been forced into selling many of these less 'pure' items. Many retailers admit that they could not survive without the profits generated by such items.

At the same time as competition has been increasing, internal changes have taken place, particularly in retail co-ops. The initial willingness to work for low wages has gradually diminished, partly through growing needs of dependents, and partly from the need to reduce labour turnover and retain skills and experience. There is growing realisation that wages and conditions can only be improved through growth and expansion, which in turn requires confronting the constraints imposed by the market. There is a clearer appreciation that the market cannot be avoided, and that it does impose constraints on how co-ops operate. This in turn has contributed to a concern with more general political issues, a

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37 Woolham, 1986, p.14.

diminution of the older isolationist view, and a linking of the 'politics of food' with socialist politics. The objective of selling at low prices has been gradually surpassed by a policy of charging enough to enable co-ops to accumulate and expand, and eventually offer better wages and conditions. The effect of this is shown in Table 10.2, where, in retail co-ops, margins have been increasing, enabling higher wages to be paid and some accumulation to take place. Nevertheless, after years of low prices and low accumulation, and lacking in business skills, many co-ops are in a weak position to resist new competitive pressures.

For wholesale co-ops, the impact of more competitive market relations is evident in the gradually diminishing surplus which they have been able to achieve; the falling level of value added as a proportion of output is shown in Table 10.2; combined with a desire to steadily increase wages, this has contributed to declining accumulation. Their response has been centered on developing the collective ability of the co-op wholesalers to compete with large companies.

Between them, the six wholefood wholesale co-ops had a turnover of £13m in 1987, representing perhaps 5% of the markets in which they operate. This in itself is a significant achievement, making wholefood wholesaling the only area of worker co-op activity in Britain where co-ops play a significant role nationally. Excluding direct purchases by supermarkets, Suma itself is the 4th biggest wholefood wholesaler in Britain, and the co-ops in wholefood wholesale network are collectively the 3rd largest wholesaler. Increasingly formal collective action by the wholesale network in order to compete as a large firm rather than marginalised small firms is a controversial area; although there has been co-operation to date in the form of joint purchasing and agreements not to compete, there is resistance from the larger co-ops (who would gain least) to the loss of autonomy involved in a more formalised structure involving joint marketing[38].

The growth of the co-ops themselves also undermines some of their strengths. Suma has found that with increasing numbers of workers "the number of people driving has increased (so each driver visits any one shop less often) and the knowledge of the drivers about products, about Suma, and about the organisation of the trade has necessarily fallen. Furthermore, increased trade has resulted in heavier delivery schedules, so drivers have less time to spend at each shop". Although the drivers have a higher level of knowledge than

38 *New Co-operator* *Winter & Spring 1987/88; Macfarlane, 1987.*

drivers of other wholesalers, they are less able to provide the information, advice and problem-sorting services which they have done in the past and which proved so effective.

CONCLUDING REMARKS

Although wholefood co-ops preceded the formation of many of today's worker co-ops, relationships between the two have sometimes been strained. In an article which appeared in *Your Business* in October 1983 entitled *Taking the Politics out of Co-operatives,* George Jones of the National CDA claimed that the movement had

> shed its many bad images, the link with left wing politics, the thought that co-operatives are just last ditch attempts to save ailing industries and the idea that they tend to be wholefood firms and the like run by bearded eccentrics.[39]

Jones' vision of apolitical co-operatives is a recipe for the replication of small business practices. In fact wholefood co-ops have made a great contribution to the wider co-op sector. They have provided a service for which there was an unmet social need, confronted the politics of food, and for a while at least, successfully opposed the interests of major food companies. Internally, they have demonstrated a long-lasting commitment to collective working decision-making and a restructuring of the labour process which goes some way to meeting workers' needs rather than those of capital. In the process, they have made some innovative developments in these areas which have made a contribution to the major problem of democratising and restructuring work in larger co-ops. They have achieved an impressive survival rate, and in the wholesale co-ops at least, have a presence of national significance and offer wages and conditions as good as or better than those which apply in similar jobs in capitalist firms. Furthermore, these achievements have been made with less benefit from intervention and public sector support than has applied to some more recently-formed co-ops.

However, if lessons are to be learned from this success story which can be applied elsewhere, the achievements must be related to the specific conditions which made them possible. The most important factor is that co-ops identified a market which was not dominated by large firms, and yet was growing rapidly; a large part of co-ops' success is directly attributable to that growth. Secondly, co-op workers were highly committed to

39 *Howarth & Hazelwood, 1984. Indeed, as they then proceed to point out, it is hard to imagine from this how the co-op movement has managed to survive at all whilst housing so many terminal illnesses within its collective body!*

what they were doing, an approach which contributed to their competitive strength and their determination to develop alternatives to capitalist forms of operation. It also meant that they were prepared to work long hours for low wages; whilst in some cases this 'sweat equity' was used as a means contributing to accumulation, this was not always the case. The possibility of working in this way is in no small part due to the relatively affluent and well-educated backgrounds of these workers. This puts into perspective the conditions required for replicating wholefood co-ops success in other industries and with other workers. Furthermore, with the transformation of a rapidly growing marginal industry into one of mass consumption, the role of small-medium firms - and co-ops - is less secure.

Part III

Conclusions

Part Three - Contents

11. Co-operatives and Market Relations

INTRODUCTION

The theory and methodology chapters in Part I aimed to establish to causal processes which would be operating on co-ops in a capitalist economy. Co-ops' overall position is dominated by tendencies towards degeneration, although this conception of degeneration is not necessarily the same as that adopted elsewhere. Given this, it was suggested that the commercial performance, and hence survival, of co-ops would depend upon three main factors:

- the nature of large firm/small firm relations in an industry;
- other aspects of co-ops' market relations;
- the nature of production relations and the labour process in an industry.

The empirical analysis in Part II had two objectives. Firstly, to present quantitative data showing the outcome of co-ops' performance; secondly, to present qualitative data concerning co-ops' market relations and the historical processes at work.

In Part III, the intention is to evaluate what the empirical results have told us about the causal process identified in Part I, in particular how the processes have worked in the case of each individual co-op sector. This is then extended to draw out the policy implications of the results in chapter 12.

Two particular features need to be pointed out at this stage, which distinguish this from conventional approaches. Firstly, I have intentionally concentrated upon relations between co-operatives and the rest of the economy, that is, the external factors operating on co-ops. Inevitably this has been at the expense of detailed analysis of the internal relations of co-ops, such as management, participation and decision-making structures. This is not because internal relations are unimportant; clearly they are of overwhelming importance to co-op workers and development workers involved with the day-to-day operation of individual co-ops. However, internal relations operate in an environment which is a product of external relations, and many apparently internal decisions - regarding problems and conflicts - are direct but internalised manifestations of external processes. In order to understand what has happened to co-ops as a whole, and to individual co-ops, it is first of all necessary to understand the external processes at work regarding their relationships to the rest of the economy. The second feature is that the analysis has concentrated upon co-op sectors rather than individual co-operatives. That is, the area of interest has been the broad processes at work which affect all co-ops in a particular economic situation, rather than examining how individual co-ops respond to those processes. If this approach appears particularly extreme, it is a reflection of both the importance of studying economic processes, and the almost total lack of attention which has been devoted to them in conventional co-operatives research, whether from a behavioural or neoclassical perspective. Even when the economy is correctly conceived as capitalist, many aspects of the economy are viewed as unchangeable and not directly of importance to co-ops. The objective here, can be seen as analysing the factors which are generally taken as 'given' in conventional analysis, and as a result, are left uninvestigated.

MAIN FINDINGS

The main findings concerning the actual performance of co-operatives were presented in chapters 5,6 and 7. In terms of the realist approach of chapter 4, these outcomes are the result of both the underlying causal mechanisms, and whatever contingent conditions were operating over the relevant period. This chapter will concentrate largely upon the results of performance and survival; the financing of co-ops was dealt with in chapter 6, which was largely self-contained with both empirical results and analysis, and which will not repeated here. Later chapters in Part II analysed qualitatively the processes at work in each co-op sector leading to these outcomes; in this chapter the implications of this analysis for co-ops as a whole are drawn out.

The main quantitative findings were:

- conditions which govern the formation of co-ops and the growth of the sector through the establishment of new co-ops are very different to those governing their survival;
- survival as enterprises is associated with varying degrees of degeneration from co-op ideals, and there is constant tension between survival in commercial and anti-capitalist terms.

• Survival as enterprises is dependent upon commercial performance. The record of co-ops in this area is characterised by the following:

- co-ops have performed less well, on average, than comparable capitalist firms;
- the commercial performance and survival of co-ops varies significantly from one industry to another;
- there is evidence that the performance of co-ops has been improving over time.

FORMATION AND SURVIVAL

The formation of new co-ops was discussed in chapter 5. The conventional approach is to present results concerning co-op sector growth and describe other changes which have been associated with this. I have attempted to go beyond this and draw out the underlying processes at work in the economy which have led to this growth. Therefore the emergence of these new co-ops was located as a response to crisis and restructuring taking place in the British economy. The aspects of restructuring of particular relevance to co-operatives are:

• rising unemployment as firms close down or restructure their operations;

• an increased role for small firms, partly as a response to restructured economic and trading links between large and small firms, and partly as a means of undermining the strength of organised labour;

• the emergence of Labour-controlled local authorities as an alternative power base and centre of economic activity to central government;

• confusion on the left as to the role and nature of social ownership of the means of production.

• support for co-ops from all major political parties - part of a more general revival of support for workers' participation and industrial democracy across a wide political and economic spectrum

• the undermining of workers' collective organisation, and attempts to link wages more closely to the profitability of employers

Once formed, co-ops operate with a variety of political and economic aims and orientations, but all are forced to deal with the conflict between surviving as both commercial enterprises and organisations representing the political economy of labour. I have concentrated in this thesis on the factors governing their survival as commercial enterprises. This is of course what the survival rates in chapter 5 represent, and would be different to survival rates in terms of other objectives.

While they operate in the market, co-ops survive commercially in the same way as any other enterprise, that is, by successfully competing and accumulating capital. Aspects of restructuring which encourage the formation of co-ops are likely to have different implications for their commercial performance and hence survival. For example, there might be a high formation rate of co-ops in an industry faced with economic decline and high unemployment, but adverse economic conditions would make survival for those co-ops more difficult.

The contrast between formation and survival rates was illustrated by comparing clothing and printing co-ops; both have been prominent in the co-op sector and have demonstrated high formation rates, but the former has experienced a much higher failure rate. This result was reinforced in chapter 7, where commercial performance of clothing co-ops was shown to be much worse than that of printing co-ops.

The result that co-ops' performance overall is on average worse than that of capitalist firms is unsurprising, and has been dealt with in chapters 6 and 7. It was expected, for the following reasons:

- co-ops will tend to suffer from a shortage of finance;
- co-ops will tend to lack some essential skills;
- attempts to pursue co-op objectives will generally conflict with the requirements of competition and accumulation;
- any positive effect on productivity e.g. from extra commitment, motivation, will be insufficient to offset the negative effects of the above;

Some of these can be alleviated through intervention and external support - such as the provision of training, of specialist financial sources, or a favourable legal environment, tax concessions etc. - and some of the contrasts between the situation in Britain and that of other

European countries have been brought out earlier. In the absence of such measures, pressures generated by the need for commercial survival tend to be at the expense of workers' interests. However, the British co-operative sector has benefitted little from planned development, and only in a few instances (e.g. the GLC, SCDC and Sheffield City Council) have grassroots initiatives been combined with an planned overall strategy.

PROBLEMS OF CO-OPERATIVE ACCUMULATION

By comparing the three sectors where co-ops are active, it has been possible to analyse the conditions which facilitate co-op success. In certain instances co-ops have been able to combine commercial and co-operative success; this is most notable amongst the wholefood wholesalers, where a high degree of commitment and efficiency were for a while combined with favourable market conditions, in an industry where a restructuring of production could be achieved with limited commercial cost, and in some cases a co-op structure was actually a commercial advantage.

Identifying the conditions under which co-ops can thrive is beneficial, but there is a danger in concentrating on commercial success only. Where commercial success has been achieved, there is inevitably a tension between commercial and co-op objectives. Co-ops may become larger and longer-established, but the conflicts between commercial and co-operative objectives do not disappear, rather they take on a different form. This is illustrated in the conflicts faced by Lithosphere and Suma, discussed in earlier chapters. These partly arise from the problems of organising direct democratic control as the number of workers involved becomes larger, but experience has shown that the constraints of competing in a market economy effectively preclude many experimental options from being tried, forcing co-ops towards a representative democracy system[1]. Although not *necessarily* the case, representative democracy tends to be more hierarchical and to exclude the majority of workers from effective participation in control, and one task facing the co-op movement is to develop effective systems of representative democracy in larger organisations[2].

Evidence from larger British co-ops suggests that accumulation and growth cannot be achieved without gradually compromising on the specifically co-operative aspects of

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1 although Suma have had some success in avoiding this
2 ICOM Pilot Project, 1986.

production, although this does not mean that all co-op ideals are totally subordinated. Pressures will be greater when growth is rapid.

The experience of co-ops in other capitalist countries, where co-ops are much larger, is mixed. The record of Italian co-ops suggests that even when there is a strong ideological commitment to co-ops, commercial pressures soon come to dominate. The Italian co-op movement has its roots among highly qualified, ideologically motivated, blue-collar workers, and has close links to the trade union movement, while the largest co-op federation - the *Lega* - has strong historical ties to the Communist and Socialist parties. The largest concentration of co-ops is in the Emilia Romagna region, a situation at least in part due to the strength since the war at regional and provincial levels of left-wing parties sympathetic to the co-operative movement. The last 20 years have seen the movement grow rapidly, with the *Lega* organising many new co-ops as rescues of capitalist firms. This growth appears to have been accompanied by an increasing preoccupation with commercial matters:

> while the Italian co-op movement has succeeded over the last 20 years in establishing itself as a significant force in the national economy, it appears in the process to have forgotten what its significance is[3].

The strength of the co-op movement certainly has had benefits for workers. Co-ops are distinguished from capitalist firms by a commitment to higher wages, lower differentials, greater employment security and fewer strikes and work accidents, and lower absenteeism. However there is very little commitment to participative management, to changing the nature of work or the division of labour, with evidence of "commercial cynicism, barbaric work practices, sexual discrimination, and rivalry between 'blue-collar' and 'white-collar' workers"[4], although another researcher has been more positive: "wages and conditions are comparable to conventional companies, internal democracy is strong, and the experience of work is positive"[5]. Novertheless there is little consciousness of any role co-ops might have in transforming capitalist society; despite its historical links the *Lega* has adopted a position of political neutrality, and is concentrating more on the commercial and competitive aspects of co-op production, less on developing any long-term social and political objectives.

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3 *Blackley, 1986, p. 79.*
4 *ibid.*
5 *Holmstrom, 1986.*

Concentration and centralisation

The problems of co-operative accumulation are related to the more general process of concentration and centralisation of capital outlined in chapter 2. The importance of these processes in advanced western capitalist economies tend to be overlooked by many supporters of a 'small is beautiful' line, and particularly those associated with co-operatives through the alternative movement. They are however of crucial importance for co-ops and have major implications for their development.

We have seen that the ability of co-ops to generate a reinvestible surplus is limited, and appears to be less than that of small firms in general. This limits their investment in newer, larger scale, more productive technology, which in turn constrains their ability to compete. Nevertheless, they can slowly grow through concentration, as some surplus is generated and accumulated, although it is by no means certain that this will be achieved and they may constantly remain at a competitive disadvantage.

Growth through centralisation is much more difficult. The nature of co-ops as enterprises controlled by labour rather than by capital (in formal terms at least) means that they are not open to takeover in the same way as capitalist firms; most co-ops do not have tradeable share capital, and any decision to merge two co-ops would depend on the decision being taken by the two sets of workers involved. In co-ops where workers actively participate in control, resistance to such growth is likely due to the increasing difficulties of maintaining participatory structures in larger organisation, and due to the dilution of any individual role. If anything, co-ops are as likely to split when they become large as combine when they are small; certainly in Britain there have been at least as many examples of co-ops splitting into smaller structures as there have been of co-op mergers or takeovers. In Italy there have been examples of mergers of weak co-ops promoted by support organisations, and at Mondragon the largest co-op, Ulgor, has spawned a number of new co-ops rather than grow itself.

Although this reluctance to grow has a positive impact on the work experience of co-ops, it does constrain their ability to compete and survive. In her analysis of the older British co-ops, Bennett emphasises the issue of co-ops and centralisation. She concludes that one of the major reasons for the poor relative performance of these co-ops is that, unlike capitalist firms, co-ops have been unable to take over their rivals and benefit from economies of scale and securing market outlets, and identifies this and changing market circumstances as the main reasons for their demise[6].

AVAILABILITY OF FINANCE

The need for co-op funding has been recognised by co-op supporters of many different political and economic persuasions, in fact by most supporters of co-ops excepting those who wish them to mimic capitalist firms in every respect except for the presence of trade unions. Their initial shortage of finance leads to a lack of productive capital, particularly in their early days, and co-ops can only purchase more as they accumulate. This suggests that the pressures resulting from the accumulation process are if anything more intense in co-ops than in capitalist firms, forcing them into paying lower wages. As Thornley says:

> The basic need has been to increase productivity in line with other firms. With less money at their disposal, co-operatives must often buy inferior machinery and accept poor quality premises. To remain competitive they must then reduce the costs of labour to a greater extent than other firms and work more effectively.[7]

The limited intervention which has taken place through the provision of co-op finance from public funds has eased this pressure, but co-ops still remain constrained for finance in their early years. Commercial funds only become readily available once a track record has been established, and co-ops are still forced to rely largely upon members loans and accumulated surpluses. The gradual impact of accumulation is shown in the gradually improving performance of co-ops over time, in both absolute terms and relative to capitalist firms. In chapter 7 it was shown that this improvement in labour productivity was largely due to an increasing quantity of means of production at the disposal of co-op workers, rather than increasing productivity on existing machinery and equipment. The ability of co-ops to accumulate in this way is highly dependent upon the commitment of workers and their willingness to build up the co-op through 'sweat equity'.

SECTORAL PERFORMANCE

Whilst lack of finance intensifies initial problems, there is a danger in assuming that more finance is all that co-ops need. There are major variations in co-op performance between

6 *Bennett*, 1984, 1984b.
7 *Thornley*, 1981.

sectors, and the relatively poor performance of clothing and wholefood retail co-ops cannot solely be explained by the financing factor. It is necessary to examine the impact of characteristics which distinguish the sectors. Following Part I, we can consider in particular:

- relationships between large and small firms and co-ops in the sector;
- co-ops' market relationships;
- the nature of the production process;

The co-op sectors studied here were specifically chosen to demonstrate contrasts in these areas; by examining their comparative performance we can assess the impact of the various sectoral characteristics. Chapter 2 stressed the importance of co-ops' market relationships, as they are the means by which degenerative pressures are transmitted. The impact of these on performance will be considered first.

CO-OPS' MARKET RELATIONSHIPS

In dealing with market relationships, the first problem is to overcome the belief that the discipline of the market place can only beneficial for co-ops. This belief is widely held, and not just amongst those for whom reliance on market processes is an act of faith. The dangers have been stressed by Bennett in the context of the financing issue:

> although we would not dispute that co-operatives would benefit from additional funding, concentration on this issue alone can be misleading. It can lead to the conclusion that ready sources of cash is all that a co-operative needs to succeed, and that once a co-operative has funds it should be left to survive in the capitalist market[8].

In chapters 2 & 3, I argued that the nature of market relations have a major impact on the experience of all enterprises, co-ops and capitalist firms, and in particular that the role of small firms was dominated by the nature of their relationships with large firms through the market. This applies equally to co-ops. The position of co-ops in the capitalist economy is largely dependent upon their relations with capital, and it is through the market that the two interact. But far from the market being a positive influence (*a la* Thornley and many others even on the left) I would argue that market pressures - which reflect the imperatives of accumulation and the interests of capital - are likely to be highly destructive to co-ops

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8 Bennett, 1984, p. 309.

and are one of the means by which their achievement of a restructuring of production under worker control is inhibited.

The funding issue represents one aspect of co-operatives' market relations - relations with finance capital through the finance market. To obtain a fuller understanding of co-ops' experience it is necessary to examine their wider market relations. And just as intervention in the finance market is necessary if co-ops are to be supported, then intervention in product and labour markets is also likely to be necessary.

Early writers on co-ops identified market conditions as having a crucial impact upon the operations of co-operatives. Although Marx did not deal explicitly with this topic, he clearly believed that the requirements of competition would exert undesirable and degenerative pressures on co-ops. Later, The Webbs, Lenin and Rosa Luxemburg investigated and wrote how the potential for co-ops to achieve some form of restructuring of production under worker control would depend upon their ability to alleviate the pressures of capitalist competition.

British co-operatives have operated in a variety of different market structures, as described in chapters 8-10, which have had a major impact on the operations of these co-ops. I will summarise these below.

Printing

In the printing industry in general many small firms fall into the the 'independent but competitive' category, where they compete with large firms on the basis of 'intense exploitation of labour and equipment'. This has become highlighted in recent years with the advent of instant print shops which intentionally operate outside of the established structure of the industry, so as to avoid and undermine trade union influence over wages and recruitment; these shops compete on the basis of very low wages and poor working conditions and can be considered the new 'sweated sector' of the printing industry[9].

The industry gains much of its character from the peculiar nature of its output - a bespoke product, produced to the highly specialised requirements of individual customers. As a result the potential benefits of economies of scale - from long production runs - are limited to a few specialised branches, such as magazine production, and so production in small

9 *Gough, 1986; Goss, 1987.*

firms is not a major competitive disadvantage. In practice, the main way to increase profitability is through reducing labour costs, and this is where recent pressures for change and conflict have been strongest in the industry.

A second consequence is that the market is highly segmented, producing for many small, specialised and often local markets which can be best served by small firms. Large firms attempt to increase the potential scope of their operations by standardising these product markets - this has been one of the main characteristics of the instant print trade - but in many cases these peripheral markets remain. Although these markets may be small (thus not attracting the attention of large firms) they are not subject to such intense competition as general markets. Much of the early success of printing co-ops was due to their achievements in keeping out of general printing and operating in the specialised market of 'alternative print', which can be broadly defined to include the printing demands of the radical press, labour movement, co-operative and community groups and their campaigns. In this area co-ops have a competitive advantage over capitalist firms, because many customers specifically prefer having their business carried out by a co-op. Furthermore, alternative print expanded steadily from the late 1960s, and received a boost in the early 1980s with the resurgence of 'local democratic movements' and much wider economic and social activity by local authorities, which itself provided an additional semi-protected market. This provided a favourable environment for the emergence and growth of printing co-ops, with this degree of market protection alleviating the destructive effects of competitive pressures. Thus printing co-ops have not only been able to pay amongst the highest wages in the co-op movement (they are still below the industry average, but an increasing number of printing co-operatives can afford to pay union minimum rates), but at the same time have been able to retain a sufficient proportion of earnings to reinvest and provide for growth.

Since 1986 the larger local authorities have been abolished, restrictions have been imposed upon the finances of those remaining, and restrictions on the use of non-commercial criteria in the formulation of purchasing policy has constrained the ability of authorities to give co-ops preference on the awarding of print contracts. As a result, the early 1980s - when many print co-ops were established - may have represented the peak of the alternative print market. The rapidly increasing size of the printing co-operative sector has in any case forced them to move into more competitive markets; some are by now sufficiently well established to survive such changes. The intensification of competition as franchised instant print chains continue to expand may prove a problem, but this is countered by the steady increase in the size of their total market. Overall, the industry continues to grow rapidly; output increased by 20% over the period 1983 to 1986, and this trend is likely to continue.

Clothing

In contrast to the experience of printing co-ops, the majority of co-ops in clothing face a highly competitive market structure. In the clothing industry small firms operate in a highly dependent relationship with large firms. The larger firms - or 'contractors' - handle the planning and co-ordination of both production and distribution; they provide material inputs to the manufacturing firms, who 'Cut, Make and Trim' to provide finished products, which are then distributed to wholesalers and/or retailers. Major elements of the production process - design, planning, purchasing of inputs, distribution and marketing are handled by these large firms, but the area providing most problems for capital - the management of the labour process - is contracted out to these 'labour only' subcontractors.

Small clothing manufacturers have little autonomy in setting production levels or prices - they effectively have to take whatever is offered - and this applies equally to co-ops as well as other small clothing firms. Many are caught in the trap of low profit/low wage/low reinvestment/low productivity/low skill production, from which escape is very difficult. The highly restrictive nature of this relationship was well illustrated by the experience of the Fakenham co-operative, and many co-ops since have had similar experiences. As a result the clothing co-op sector, despite having had a high rate of new co-op formation, is characterised by poor commercial performance and a high failure rate. In contrast to printing, the industry has been in long-term decline, with output volume over the period 1979 to 1982 falling by 25%, and although output has risen since then, in 1985 it was still nearly 10% below the 1979 level.

The individual clothing co-ops which have performed better than the norm are (almost) exclusively those which have avoided or escaped from such dependent relations. They do not operate in CMT but produce more specialist garments (although not specialist *fashion* garments where marketing is difficult and frequent changes of style are disruptive); they sometimes carry out their own marketing, and control a larger element of the overall production process.

Few clothing co-ops have been aided by any market intervention or amelioration of market forces on their behalf. Whereas printing co-ops' product has a high political profile (in terms of the nature and content of the material), the same does not apply to the output of clothing co-ops. While printing co-ops have benefited from market protection because of a political sympathy between producers and consumers, this has been less so in clothing. In the case of Fakenham, the co-op did receive some orders specifically because of its origins as an attempt by women to preserve jobs under their own control when threatened with redundancy, but this was not extensive enough or in a form to benefit the co-op.

The structure of clothing production is changing rapidly with the introduction of flexible manufacturing systems. For firms which can restructure in this way a further competitive advantage will result, but at the same time, the division between them and old-style CMT firms will intensify, and even more downward pressure on real wages will result. Unless a positive strategy for the financing and restructuring of clothing co-ops is adopted, their long term prospects are not promising.

Wholefood co-ops

Wholefood co-ops were established in the relatively early days of the co-ops boom, and were amongst the pioneers of the new movement. They also faced a specialist market, and in some areas enjoyed an almost monopolistic position. There were close links between wholesale and retail co-ops (Suma was itself established as a wholesaler by a group of retail co-ops), giving an element of market protection to them, with business not allocated exclusively on the basis of price competition. Because of their commitment to the product, many co-op workers on both the wholesale and retail sides were knowledgeable and could offer a superior service to customers.

There was a broad difference between the way the wholesale and retail co-ops reacted to this situation. Whilst there was a general commitment to promoting wholefoods, the retail co-ops tended to do this by charging low prices and providing a personalised service to a specialised group of customers. Many were opposed to the idea of growth, and thus not interested in charging higher prices and margins in order to accumulate. Although they paid low wages, this was effectively done out of choice by well educated, middle class co-operators who retained the option of finding another 'conventional' job if they so wished.

Wholesale co-ops were much more commercial and growth oriented in their outlook, considering that their role in promoting wholefoods and co-ops lay in expanding and showing that co-ops could operate both as efficient businesses and with certain ideals. Concentrating on efficiency and competitiveness, they succeeded in both accumulating and providing high wages and good working conditions. Favourable market conditions - resulting from a degree of protection through links with other co-ops, and a rapidly growing market, meant that at the same time they could maintain co-op characteristics, particularly in participative management and an element of job rotation.

By the early 1980s wholefoods had been transformed from a specialist to a mass market, with the major food retailers moving in rapidly. This had implications for both wholesalers and retailers. Supermarkets had an overwhelming advantage in terms of efficiency, price and convenience, against which few of the co-op retailers - mostly very small - could hope to compete, although they would retain some loyal customers. As they were already in a weak commercial position - having chosen not to go for commercial success when the market was specialised - they are now in a vulnerable position. This is accentuated because many co-ops will not follow the response of other specialist wholefood retailers - particularly the Holland & Barrett and Realfare chains linked to Booker - by transforming themselves increasingly into healthfood shops, where margins are much higher.

Wholesalers are also under pressure but have adopted a different strategy. The supermarket chains are so large that they can by-pass conventional wholesalers and purchase straight from manufacturers or importers. Even Brewhurst, the Booker subsidiary, is attempting to move out of wholefood distribution as its profits are squeezed in the face of competition from supermarkets. The major co-op wholesalers undertook a detailed market analysis and concluded that one way to survive was to reinforce the collective rather than competitive aspect of their joint behaviour - although this had always been strong - and establish a secondary co-op to deal with purchasing and marketing, possibly trying to promote a joint co-op brand name. In the end this strategy has been undermined by the decision of Suma not to participate, and even for the other commercially successful wholesalers the future must be uncertain.

The result that co-ops fare better when competitive conditions are relatively less intense is in itself unsurprising. There is a clear parallel with the position of monopolistic or oligopolistic capitalist firms, where barriers to entry reduce competitive pressure and allow relatively high profits. Co-ops which operate in areas where market forces are less intense can be considered to be making an element of monopoly profit, which can then be diverted to whatever uses the co-op sees fit. This does not mean that co-ops in such conditions actually realise high profits; they may operate in a way which uses this up the potential surplus before earning it. For instance, this could happen if a co-op practices job rotation which has a commercial cost, or if it charges low prices to particular groups of customers.

Even in situations where competitive pressures are relatively weak, there is still some competition, and of course the threat of potential competition is real even for monopolists. Co-ops are under pressure to match the performance of those competitors; if they fall behind in accumulation their competitive position would eventually be eroded.

Small firm/large firm relations

The co-op performance described above can now be analysed in terms of the initial choice of co-op sectors according to Schutt & Whittington's classification of small businesses. The intention behind this was to analyse the impact of the different relationships between large and small firms on the ability of co-ops to survive. Firstly, it is necessary to consider how well the co-op sectors chosen correspond with the theoretical categories, before assessing whether the three types of relations do in fact influence the performance of co-ops.

(1) *dependent* - complementary and servicing the activities of small firms.

(2) *independent (i)* - competing with large firms often on the basis of intense exploitation of labour on antiquated equipment.

(3) *independent (ii)* - operating in niches that consist of small local/specialised markets ignored by large firms.

Clothing co-ops were chosen for the first category, and most of them do indeed meet this classification, particularly those in CMT. Their experience shows that this is an unfavourable position to be in. Certain of the more successful clothing co-ops - such as one making kilts - fall into category 3.

Printing co-ops were selected for the second category, but the classification is less clear-cut than in the case of clothing co-ops. Some do fall into this category, whilst those operating in the political or alternative print market must be considered to be operating in category (3).

In practice print co-ops deal with more than one market and hence would fall into more than one category - some work may be obtained competitively against small print firms in general, other work may be in the more specialised, partially protected market.

Finally, wholefood co-ops were selected for category (3). This was accurate for wholefood co-ops when first established but more recently the situation for most has changed from being a specialist, niche market to a mass market, although this applies less to those who have maintained their specialist position, for instance by dealing in organic products.

The most successful co-ops have been those operating in the third category, in specialist markets where large firms do not operate widely, and where competitive pressures are relatively weak. The dangers lie in the fact that such markets are small - the very reason why large firms do not deal with them - and are likely to require a high degree of expertise to operate in them successfully and/or are commercially marginal. Where co-ops have performed well, they have not only been in specialised markets but have also had an additional link to their customers - a form of extra-commercial commitment between producer and consumer. Thus both wholefood co-ops and those printing co-ops involved in alternative print have enjoyed a form of market protection additional to that which would be enjoyed by any capitalist firm. The danger facing such co-ops is that any success on the basis of market growth is likely to be associated with a transformation of market structure and relationships; the success of wholefood co-ops has been associated with a transformation of wholefoods into a mass market, that large companies are now interested in. Once this happens the autonomy, of smaller enterprises begins to be suppressed.

Certain co-ops in the 'independent and competitive' category (2) have nevertheless been successful. However, they need to be highly efficient in order to survive, and even so the highly competitive nature of such markets means that co-op objectives will always be under threat. Clearly it is easier for established co-ops to succeed in such a situation, where the shortages of finance and skills typical of new co-ops would be less of a problem.

Finally, it appears unadvisable that co-ops should be established in the 'dependent' category, given the lack of autonomy and poor commercial performance which results. The difficulties of successfully establishing a co-op in such conditions are appreciated in Italy, as the following example quoted by Thornley demonstrates:

> The [co-op] federations had an offer from Louisa Spagnola, a clothing and knitting firm, to form a co-operative from the collar and button-making section. Louisa Spagnola wanted to keep their label in the market and to control prices, leaving the co-operative with little autonomy. The offer was turned down[10].

IMPACT OF MARKET RELATIONS ON CO-OP DEVELOPMENT IN EUROPE

The experience of co-ops in other European countries, particularly France, Spain, Italy and Yugoslavia has been well documented and researched, and British interest in this has increased substantially during the past decade. Much of this interest has been aimed at learning from the European experience in order to promote the growth of co-ops in Britain. Whilst this is an admirable objective, learning can take place only if the record of European co-ops is correctly analysed; otherwise, completely misleading lessons will be drawn. Unfortunately a correct analysis has rarely been the case. Neoclassical economists have, ironically, focused upon socialist Yugoslavia as the economy with the largest co-op sector, following their ahistorical belief that their analysis can deal with any social and economic system. Others have focused upon co-ops in France, Italy and Mondragon in Spain, but because the majority of researchers study co-ops in isolation from their social and economic links, from their markets and the historical development of class relations there has been a tendency to focus upon internal co-operative structures and problems, rather than the problems which they face outside. Consequently it is often assumed that if the internal structures which are associated with 'successful' co-op sectors in other countries are replicated, the experience of these co-ops can easily be transferred to Britain.

Spain - Mondragon

We have seen earlier (chapter 6) how Oakeshott and others concentrate on Mondragon's use of individual capital shares as an incentive

> The workers' commitment to the long-term success of the enterprise will surely be immensely stronger if it is underpinned by the responsibility which a measure of actual ownership brings[11]

and Campbell[12] uses a similar argument based on the experience of Polish co-ops. These two writers have noticed the success of Mondragon, isolated an aspect of Mondragon not

10 Thornley 1981, p. 154.
11 Oakeshott, 1980.
12 Campbell, 1980.

found in the UK, and assumed that this factor has caused Mondragon's success. This aspect is of course the individual rather than collective ownership of assets, and they suggest that the measure should be introduced for British co-ops. Their proposal does not deal with the underlying financial problem of British co-ops, and has been dealt with in chapter 6. The same chapter also details the particular financial arrangements which have benefited Mondragon co-ops, based upon the co-op bank and planning institution, the CLP. This is one element of co-ops' external relations, and although the operations of the CLP are recognised by observers its significance - particularly as a planning authority - is generally not appreciated.

The CLP has had a dual role with respect to Mondragon co-ops. Firstly, it has shielded Mondragon co-ops from the negative influences of competing for funds in conventional finance markets. Secondly, it has acted as a central planning and management authority. These functions have reinforced very favourable general market conditions over the period of the group's expansion, from the mid-1950s to the late 1970s. Fairclough points out that the rapid economic expansion achieved in Spain in the 1950s and 1960s - aimed at turning Spain from an agricultural economy to an advanced capitalist one - was dependent upon the sheltering of emerging capitalist industry by high tariff barriers, which, for a time, completely closed Spanish borders to international competition[13]. Furthermore the most heavily protected sectors included the ones in which Mondragon co-ops were concentrated - furniture, electrical consumer goods and electrical machinery. A small start was made in reducing this protection in the 1970s, but only with Spain's accession to the EEC in 1980 has the country's high level industrial protectionism been eroded. It is recognised that this will cause problems for Mondragon. At ULGOR, the largest co-op, making domestic appliances, which stimulated the growth of many new co-ops in the 1960s, the general manager admitted in 1984 that, with the advent of international competition and the removal of the last remnants of protectionism, the co-op would need a 20% increase in productivity for it to survive[14].

Not only did Mondragon co-ops benefit from protection from foreign competition, but government economic policy also led to rapid economic growth in the 1960s and 1970s, and this was coupled with booming world export markets. Thus during the twenty crucial years

13 *Fairclough, 1987, pp. 7-8.*

14 *Financial Times 22/5/84, quoted in Fairclough, 1987.*

after the first co-op formations, Mondragon co-ops operated in a sellers' market and could co-exist with other Spanish firms. General economic conditions facing the co-ops could hardly have been more favourable. In addition, there has been emphasis on the development of inter-co-operative trading, which has taken the form of complementary product ranges and machinery being produced in one co-operative for use in another. Such co-op inter-trading was stimulated by tax laws which provided co-ops with exemptions and reductions on the taxes and levies applied to inter-enterprise trading, and as a result they benefited from a further degree of protection from competition. These exemptions have amounted to a considerable subsidy for co-ops *vis a vis* capitalist firms.

The CLP's financial-provision role has been covered in chapter 6, but its planning and management capability has also been crucial. The information gathered from individual co-ops provides the starting point for plans covering the group as a whole, and the elaboration of five year rolling plans has become one of the bank's most important functions. Within the context of this plan - which is geared to meeting the economic and social needs of people in the Basque country - the CLP co-ordinates the development of existing co-ops and the formation of new ones. Therefore associated co-ops are expected to deposit their funds with the CLP, so as to strengthen its financial resources; co-ops are expected not to compete with each other, given the CLP's role in developing product lines in the group as a whole. It carries out feasibility studies for the establishment of new co-ops and the expansion of existing ones, and co-ordinates the business plans of individual co-ops, using information from them and from its own research department to monitor the results. Finally, the employment guarantee given by individual co-ops is crucially dependent on the CLPs management of the employment levels of the whole group, given that workers in any contracting co-ops are offered jobs in others - or at least they have been until recently.

Thus Mondragon co-ops have, for a long period, not been faced with the harsh competitive forces which, I have argued earlier, are the prime source of pressures for the degeneration of co-ops over time. This supports earlier evidence from British co-ops, that those which performed best were in industrial sectors where market conditions were such that competitive pressures were, for whatever reason, ameliorated.

State policy was crucial in generating these favourable market conditions, and Mondragon co-ops benefited more generally from state policy and intervention over the period of their most rapid development. Franco's Fascist government after the Civil War viewed both communism and *laissez-faire* capitalism as twin evils, and its economic ideology was both nationalist and corporatist. Not only was intervention widespread - in both product and labour markets - but co-ops were viewed favourably as a means of deflecting class conflict[15]. They benefited from generous fiscal and legislative provisions, which contributed to their economic success and the maintenance of a democratic character.

Underlying this policy was a need to provide trade-offs for the denial of democratic political rights under a repressive regime, which continued to suppress independent trade unions and political organisations, and to imprison, execute and exile activists from the end of the Civil War in 1939 until the death of Franco in 1974. Although the Falangists claimed to have as a goal the 'unity of capital and labour', their corporatist approach 'made sense as the political strategy of capital'[16].

Mondragon's co-ops developed successfully within this strategy. It has been argued that they took advantage of legal provisions designed for agricultural co-ops, and secured unintended benefits for the workers involved[17]. However this development cannot be viewed in isolation from other aspects of Franco's co-op policy, which included the breaking of links between co-op workers and the rest of the labour movement, so as to undermine the latter and inhibit the development of a potentially revolutionary industrial proletariat. Thus trade unions are prevented *by law* from any formal representation in Spanish co-ops, and there is often active hostility within co-ops towards trade unions[18]. As in any capitalist economy, trade unions must be the primary means of passing the gains and experiences of co-ops to other workers. So, while the Mondragon co-ops have undoubtedly benefited the workers directly involved, whether they have benefited Spanish workers in class terms is less certain.

At Mondragon there has until recently been undoubted success in maintaining co-op structures without falling victim to the sort of degeneration which afflicted the older British

15 *Despite the association of co-ops with the socialist and anarchist movements in the nineteenth century, in the early 20th century the conservative Catholic church had become heavily involved in the promotion of secondary, consumer and credit co-ops in rural areas. This provided the basis for the expansion of co-ops under Franco.*

16 *Fairclough, 1987, p. 15. As an illustration of the success of this strategy, one can observe that while the socialist/communist/anarchist Popular Front represented a clear threat to Spanish capital in the 1930s, it clearly does not do so today, despite the securing of state power by the Socialist Party.*

17 *Cornforth & Spear, 1987.*

18 *Seminar by M. Holstrom on Co-ops and SALs (Sociedade Anonyma Laboral) in Spain, at the Open University 18.11.87.*

co-ops, and which so concerned the Webbs. The co-ops have not developed a class of wage labour internally, nor have they fallen victim to takeover by capitalists. The explanation for this lies partly in favourable economic conditions - in which state economic management played a major role - and partly in the legal and fiscal structure erected by Franco's government. Both of these provided a favourable environment for the expression of workers' abilities and desires to run and develop their own workplaces. But as Fairclough points out "in no other country does it appear that co-operative law has been so facilitative of retaining co-operative integrity whilst encouraging growth and economies of scale to maintain competitiveness with their capitalist rivals"[19].

It must also be pointed out that Mondragon's successes are also viewed in male terms. Hacker notes that whilst Mondragon has partially transformed working conditions for men, the conditions of women workers is only marginally better, relative to men, than in capitalist firms. The economic success of Mondragon remains dependent upon womens' unpaid labour in the home, as it is in capitalist firms. The reproduction of gender stratification is compounded by replication of the conventional division of labour and use of technology in Mondragon co-ops, with all the negative implications for women which that involves[20].

Since 1980 there have been signs that the 'Mondragon miracle' has been coming to an end, with the international recession and intensification of market pressures. The formation of new co-ops and employment has declined, and the group has followed the practice of medium and large capitalist firms by dividing its internal labour market. This has taken the form of temporary co-op workers, or semi-casual workers who move from one co-op to another with periods of unemployment in between, thus undermining the co-op principle that all workers are equal. There is less employment security for all workers, and real wages have also declined[21]. Despite this, unemployment is lower at Mondragon than in Basque industry overall, and co-op workers do enjoy superior employment security[22]. Furthermore there are proposals to enable the CLP to lend to enterprises other than co-ops, which will then have to compete for funds. This is potentially the most far reaching change, as it will remove perhaps the most distinctive aspect of the Mondragon group - its access to capital,

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19 Fairclough, 1987, pp. 17-18.

20 Hacker, 1988; Cockburn 1983, 1985.

21 Spear, 1987; see also Oakeshott & Wiener, 1987.

22 The combination of real wage reductions and lower unemployment in co-ops supports Weitzmann's (1984) view that co-ops and/or profit-sharing will provide a means of reducing real wages during recession.

which removed the need to compete in conventional finance markets, hence avoiding the weakness which affects co-ops elsewhere. It is likely that pressures on Mondragon will increase this change occurs and as Spain becomes further integrated into the EEC and tariff barriers are completely removed

France

Mondragon owes a major part of its success to the interventionist role of the Spanish state in creating a particular economic and legal environment which worked in co-ops' favour and enabled workers to develop and run their enterprises. State intervention has also benefited co-ops in France, but in addition the labour movement has had an important role in supporting co-ops.

Co-ops first emerged in large numbers in France during the revolutionary upheavals of the 1860s. They were encouraged during the Paris Commune of 1871, and in 1876 were accepted by the first trade union congress as progressive enterprises which were complementary to trade unionism. At the same time state efforts were largely aimed at using co-ops as a means to defuse working class militancy. The Emperor Napoleon III established the first legal form for co-ops in 1867, agreeing to their demands as he attempted to secure working class support for his rule by introducing social reforms. At the same time he hoped to contain militancy by encouraging co-operative societies, but, in case this did not work, the new law included a ban on the newly-legalised co-ops from holding meetings to propagate their views or recruit new members![23]

Economic support came with the awarding of the first public works contracts to co-ops in 1888. Partial protection of co-ops' market has continued ever since, and is currently regulated by the Code des Marches Publics. This states that "if it is practicable, one quarter of the work involved in a project will be temporarily reserved for co-operatives at the average price of the other three *lots* [quarters]"[24]. As a result, 'building and public works' is by far the largest co-operative sector in France, and these co-ops have enjoyed a steady supply of work.

As in Spain, state support is used to prevent degeneration of co-ops. The Webbs first noted that "privileges which the French Government accords to them, both in credit and in

23 *Edwards, 1971.*
24 *Thornley, 1981, p. 146.*

custom, are dependent upon their retaining their character of enterprises in the control and management of which the workers play an effective part."[25] Currently, for a co-operative to qualify for a *lot reserve,* at least three quarters of its members must be permanent workers, and it must be on a government-approved register of co-ops. French law also prevents the assets of a co-op in liquidation from being distributed to members, but must be passed on to another co-op. Thus there are effective safeguards against co-ops passing into capitalist control, which was one of the main dangers of degeneration identified by the Webbs, and these legal differences were identified as a major and beneficial contrast to the situation in Britain[26]. Although there is no requirement in law for all workers to become members - and hence co-ops may employ a substantial proportion of wage labour - it is not possible for workers to be deliberately excluded from membership. Furthermore, any distribution of bonuses must be to all workers, not just members, on the basis of earnings. As at Mondragon, members are obliged to pay a small entry fee, which can be paid out of subsequent earnings, and are entitled to participate in the assembly which is the co-op's ultimate sovereign body. The widespread practice of French co-ops having a large proportion of non-member workers could superficially be seen as degeneration and the exploitation by members of a class of wage-labour; in fact it is more a reflection of the perceived impotence of this decision-making role.

French co-ops have also been assisted by a specialist bank for co-ops, established by the government in 1938[27]. The legal framework is also more detailed than that in Britain, and is particularly aimed at preventing financial instability. As in Spain, co-ops have had access to specialist finance and have not had to compete in capital markets; this had removed a prime source of commercial weakness.

Italy

The Italian worker co-op sector is the largest in western Europe, with over 11,000 co-ops in 1981[28], and a steady growth since then. The sector is characterised by a high political profile and close links with trades unions, but has also enjoyed substantial state support which assisted the establishment of co-ops over a long period.

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25 Webb, S. & B., 1914, p. 7.

26 Since 1986 the situation has changed, and there is now a less strict defence of co-op principles.

27 see chapter 6.

28 Estrin, 1985.

From the earliest days of Italian co-ops in the 19th century, the state intervened in co-ops' market relations to provide contracts for work on favourable terms, or at least on terms which went some way towards overcoming co-ops' competitive disadvantages vis a vis capitalist firms. This has mostly been in contracts for public works and construction, and Italian co-ops remain concentrated in industries such as building, civil engineering and other fields where the public sector is the main market. In the Emilia Romagna region of northern Italy, which today remain a stronghold of the co-op movement, co-ops were first established in building and engineering, set up to compete for public contracts in land drainage and construction schemes[29]. Successive local government administrations in the region have promoted socialist policies and have been sympathetic to the co-operative movement, continuing to award them public sector contracts.

The Webbs reported that the Italian government looked favourably on co-operatives, and passed laws in 1899 and 1904 which exempted co-ops from the need to make deposits and guarantees on public sector contracts, and permitted them to undertake labour-only tendering, as well as other favourable conditions. Not only did this aid the commercial prospects of co-operatives, it inhibited degeneration. The Webbs reported that:

> the necessity of registration to secure these Government privileges has (as in France) the result of keeping the constitutions of co-operative societies from development in a capitalist direction, because the Government insists on all the workers sharing in the profits in proportion to wages, forbids all subcontracting, and only in exceptional cases allows non-members to be employed at all[30].

When the legislation was originally introduced, local authorities could award contracts to co-ops without recourse to competitive tender[31], and those controlled by Communist and Socialist parties used this to great effect to support co-ops.

Although co-ops were repressed during the period of Fascist rule, they were given a special status under the 1947 constitution. They were recognised as a special form of enterprise and received support from the Ministry of Works and Social Security[32]. They were allowed exemption from tax on members' capital, in addition to the previously-won benefit of a ten year exemption from stamp duty. These legal provisions have been of substantial assistance

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29 Thornley, 1981, pp. 152-3.

30 Webb, S. & B., 1914, p. 11.

31 although this provision has since been abolished.

32 Thornley, 1983, pp. 325-6.

to the development of the co-op sector, with many co-ops deriving a regular market for a proportion of their production. In certain industries co-ops are now a significant force in the national economy.

However, state support has not provided the basis of the extension of co-op production in recent years; this owes much more to the activities of the *Lega* and other co-op federations. As in other capitalist economies, co-ops are vulnerable to increasingly strong competition from large capitalist firms. In response, the federations have promoted the formation of consortia (*consorzi*). These are secondary co-operatives formed by a number of workers co-ops, and carry out functions on their behalf. These have a specific status under Italian law and are used extensively by capitalist firms as well as by co-ops, with 79,000 in existence in 1979, and are eligible for grants and loans from central, regional and local governments, and from banks[33]. They centralise certain functions such as the acquisition of raw materials and semi-finished inputs, negotiating for finance and contracts, selling finished products, and the accumulation of expertise. The *consorzi* have overcome expansion problems by enabling two or more co-ops to tender for work on contracts too big for individual co-ops, and have also facilitated inter-trading between the co-operative sectors. Within sectors, direct competition between co-ops is discouraged. With concentration and centralisation of capital increasing the size of capitalist firms, the *consorzi* have increased the competitive power of co-operatives - and indeed of small firms in general - and lessened their vulnerability to highly-organised multinationals.

The *consorzi* have certainly aided the commercial position of those co-ops involved, but demonstrate a subordination of ideological objectives to commercial expediency. Although they are secondary co-ops, their workers are employed as wage labour. One member of the IPP party visiting Italian co-ops recounts the telling story of Celcoop, a secondary co-op set up by one of the *consorzi* to provide computing and administrative services to co-ops and external customers. The vice-president and director said that "Celcoop would work for anyone, and in response to a direct question smugly assured us that they would be delighted to receive work from the defence industry"[34].

Experience shows quite clearly that the nature of specific industries has a crucial bearing on the fortunes of co-ops. There appears to be little appreciation of this in Britain, where co-ops

33 *Best, 1986; EAG, 1983.*

34 *Blackley, 1986, p. 81.*

have been established across a wide range of industries, with little regard to the causes of poor performance and low chances of survival and hence the factors which need to be addressed if co-ops are to survive. Much attention has been devoted to the internal organisation of co-ops - which is of course important - but little to the economic environment, to co-ops external economic relations, and the likely impact of these. Whilst there may well be a need to establish co-ops in the clothing industry - given its decline, unemployment and poor working conditions - there is only any hope of co-ops in the industry improving on this over the long term if serious attention is paid to the causes of high failure rates, poor wages and working conditions in small firms generally in the industry; otherwise co-ops will simply reproduce these and fail to improve workers' conditions. Identifying the conditions which favour co-ops does not mean that they should be established only where the market provides these conditions; it also identifies the constraints on co-op operation which need to be addressed if co-ops are to be established successfully where these conditions do not exist.

All of this assumes a particular perspective on the role of co-ops: that they should contribute to an improvement in working conditions and ultimately contribute to a socialist transformation of the capitalist economy. This is not shared by all of those supporting co-ops, and the strategies adopted to aid co-op development depend upon the underlying objectives. The next chapter reviews different perspectives on the role which co-ops are, or can be, playing, and the measures taken to support them.

FURTHER CONTRASTS: LABOUR PROCESS & TECHNOLOGY

There are other factors which contribute towards the vast differences between printing and clothing co-ops, and in order to appreciate these it is necessary to consider the historical development of the industry - in particular of capital-labour relations - and the present state of both social and technical relations within each industry.

The position of workers in the printing industry as a whole has had a major impact on printing co-ops; in particular four factors-

- workers in the printing industry have a long tradition of collective organisation and politicisation;

• they have retained a high degree of control over the production process, including wages, recruitment and the organisation of work;

• printing work remains highly skilled and predominantly male, with high wages and secure conditions;

• current economic restructuring has been used by capital to mount an intensive attack on the above.

Co-ops have previously appeared as part of printing workers' fight to resist capital, and in the current co-op boom many printing co-ops have attempted to re-organise work along less hierarchical lines. Thus job rotation and skill-sharing is widespread, even though this has a high commercial cost given the relatively highly skilled nature of much printing work. There is also a strong commitment - in some co-ops at least - to undermining the male near-monopoly of skilled work by introducing women into traditionally male jobs and changing the attitudes of print unions from within. In terms of their economic position, printing workers have used that same strength to secure high wages and favourable conditions, although of course there has always been a non-union or 'rat trade' sector where these are undermined. Because wages in printing firms competing with co-ops have been high, co-ops have not been forced to pay low wages (in absolute terms) even if they have been commercially weaker. In addition this has given co-ops some (limited) economic flexibility to pursue restructuring in production, despite costs in terms of commercial performance.

The position of workers in clothing manufacture offers a contrast:

• production work is predominantly carried out by women;

• production is generally widely dispersed in small manufacturing units, and includes homeworking;

• workers have never been extensively organised, and despite much work being skilled, wages remain low, conditions poor, and employment insecure.

The use of women workers by capitalists has generally been highly effective in preventing collective organisation, as workers could always be easily sacked and replaced. This does not mean of course that women workers in the clothing industry are docile in the face of oppression - far from it, as the examples of the Fakenham workers and those at Lee Jeans in Greenock make clear. However it does mean that working conditions and wages have remained poor. Thus co-ops have been constrained in the extent to which they could pursue alternative strategies which had a cost in terms of commercial performance, simply because to do so would reduce wages in an industry where they are anyway notoriously low.

The position in wholefood distribution is different again. The industry is relatively labour intensive with an undifferentiated skill structure. Therefore it has been relatively easy for wholefood co-ops to introduce and experiment with more egalitarian forms of the division of labour; rotating workers between different skills and jobs has less of a commercial cost when the majority of work is relatively unskilled manual work. The large wholefood wholesalers have had to modify this policy as some administrative tasks have become more specialised (such as accounting and purchasing), but a commitment remains. This policy has been facilitated by relatively favourable market conditions.

The relationship between co-ops, technology and the labour process is an important but complex one. It affects the industries in which co-ops operate, their development, and the ease with which a specifically co-operative structure can be maintained. Co-ops do tend to be concentrated in labour-intensive industries, reflecting both attempts by workers to preserve skilled, craft based production in the face of implementation of deskilling technology, and the severe problems faced by co-ops in obtaining finance. Given the financing constraint, co-ops would tend to survive longer in industries characterised by labour-intensive, small scale production, where co-ops would not be at too much of a competitive disadvantage. In this context it is instructive to note that at Mondragon, where co-ops probably face less of a financing constraint than anywhere else in western Europe, co-ops do operate in relatively capital intensive, manufacturing industry.

Whilst a shortage of finance is important, it is not something engraved in tablets of stone, but reflects the economic and political environment which face co-ops, and it also important to consider other issues involved in the nature of production and their impact on co-ops. Co-operative production is not simply about obtaining sufficient finance to mimic capitalist production, it is also about changing the nature of work, the organisation of production and relationships between workers, and this is closely related to the predominant form of the labour process in various industries. The way in which the capitalist labour process clashes with the ideals of co-operative production will vary enormously, and various writers have attempted to identify the conditions under which co-ops would prosper. And the findings of this research suggest that it is not just a question of how labour-intensive an industry is:

printing is more capital-intensive than clothing manufacture, and yet co-ops in printing have been relatively more successful.

The relationship between co-ops and technology has been explored by Robinson[35], who - abstracting from financing problems - concludes that co-ops are suited to skill-intensive, as distinct from labour-intensive, production. Following Cooley[36], he distinguishes skill-intensive activities, where technology amplifies human skills, abilities and judgements, and machine-intensive ones where human skills and judgements are replaced and the overall effect is one of deskilling. The former encourages active participation by workers in their tasks, and is based around decentralised decision-making which is in the capability of individual workers. Nor is there likely to be a detailed division of labour in skill intensive production, all features which complement co-operative organisation. By contrast, jobs that are deskilled and robotised do not prepare people for participation, and furthermore, machine-centered production requires centralised control.

From this perspective co-ops are doubly disadvantaged in capital-intensive, mass production industries, restricted by lack of finance and an inappropriate labour process. However, they may be more appropriate to emerging areas of economic activity. It has been noted that companies operating in advanced technology areas demonstrate some characteristics similar to co-operatives, often starting as small-scale partnerships, and an increasing number of co-ops are active in computer-based research and consultancy activities. In such areas the co-operative form may not be a major commercial disadvantage nor prove difficult to sustain. The relationship between technology, the labour process and the development of co-operatives is an area which requires more detailed research, but this is clearly an important issue regarding the fortunes of co-operatives in various industries.

The role of value added measures in assessing performance

Analysis of the commercial performance of worker co-operatives has been based upon the use of value added measures, developed in chapter 7. These measures have served a useful purpose, but many problems remain associated with their use, which in turn reflect the contradictory position of co-operatives themselves.

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35 *Robinson, 1986.*

36 *Cooley, 1980.*

The main difficulty is concentrating on the commercial performance of enterprises which clearly have prominent social objectives. These social objectives will tend to have commercial costs, but the positive impact of their achievement will not be taken account of, and as we have seen, co-op performance in commercial terms does tend to be worse than that of capitalist firms. Examples of these other objectives are a particular pricing policy, adopting a division of labour or technology which is not value-added maximising, and are illustrated in the following example describing the work of a printing co-operative, Calverts North Star Press:

> At present we are earning £70 for a 35 hour week or £85 for 42 hours, but are aiming for the average industrial wage in the short term. All workers earn equal wages. Some of our potential earnings (maybe £15 a week each) goes towards subsidies on jobs whose publishers have no printing budgets e.g.community groups, campaigning organisations, etc. We operate three price scales depending on the size and financial position of the customer.[37]

Such achievements will escape value added measures and these objectives will be relegated in importance. Although adequate financial performance is a constraint, can it be elevated to the sole criteria of success?

This question is indicative of a wider problem - that of assessing achievements which are not quantifiable in monetary terms, many of which are felt outside of the co-operative itself. How do we take account of the benefits to consumers of socially useful products (more exercise and less pollution from bicycles, better health from wholefoods), which would not necessarily be provided on the basis of profit rather than need. Indeed, one could argue that as the existing economic system acts to exploit and oppress the vast majority of people, then any co-operative activity which rejects existing reactionary practices is advantageous and socially desirable.

There may be no way out of this contradiction whilst co-ops are essentially left to compete in the market; it is ultimately on the basis of their commercial performance that survival depends, and so concentration on this is valid. But if co-ops were to be supported for other reasons, and in some way sheltered from competition, then some assessment of whether those other objectives were being met would be required. To what extent are co-ops achieving other objectives, and how can this be assessed? If the state (local or national)

37 *Cockerton et al 1980, p. 74.*

wishes to support co-ops and reinforce their progressive potential, on what basis could the success or otherwise of such strategies be evaluated?

One conventional response is the cost-benefit approach of the social audit. This attempts to put a monetary valuation on 'externalities', including wider costs and benefits in a calculation. This approach has been adopted in different circumstances[38] in attempts to quantify the wider impact of decisions taken by nationalised industries, and formed the basis of part of the opposition to the 'uneconomic pits' argument during the 1984/85 miners' strike[39]. A similar exercise could be undertaken by a government interested in the macroeconomic impact of co-operative development as an employment creation strategy. The shadow cost of investment in co-operatives would then be much less than the monetary cost, reflecting the relatively low net cost to the state of publicly funded employment creation.

For many, however, co-operatives are part of a wider strategy of restructuring the economy in favour of labour, rather than simply employment creation. Generally the 'social benefits' involved cannot be valued in a monetary way; elsewhere we have made efforts to develop the concept of 'social returns' to social investments, as an analogy to financial returns to financial investments[40], in a way which could perhaps be used by organisations undertaking investments in co-ops (or elsewhere) on the basis of social rather than commercial criteria. Ideally this would strengthen the investing authority in the same way that financial returns are accumulated by commercial investors. However, the concept remains underdeveloped, and "there is a worrying tendency for this new policy mechanism to assume the status of a 'radical administrative fix' for a very large problem indeed"[41].

CONCLUDING REMARKS

Throughout Europe there are many factors contributing to the experience of co-ops, which can be identified as being due to the different contingent conditions in which co-ops operate. These include relations between the labour movement and and co-ops - particularly important in Italy; cultural factors, which have frequently been cited as important in the development of Mondragon; but most important has been the nature of

38 Rowthorn and Ward 1979, Nove 1973; Harte & Owen, 1987
39 e.g. Glyn, 1984, but see O'Donnell, 1986 for a critique.
40 see Jefferis & Robinson 1986.
41 Geddes, 1988.

state (both central and local) policies towards co-ops, through the provision of a legal framework, tax regulations, and intervention in product and finance markets. Various different policy implications can be drawn from this. Firstly, if the objective is to promote co-ops in the small firms mould, an intensification of competitive pressures would inhibit their pursuit of objectives which conflict with commercial survival. Secondly, for co-ops to develop as alternatives to capitalist enterprises, rather than replicating them, there are two options. One is to adapt the character of the co-op sector so as to match it more closely to the requirements of the economy; one aspect of this would be to promote the establishment of co-ops only in industries and markets where conditions for co-op survival are favourable - in the context of the sectors studied here, that would mean not promoting co-ops in the clothing industry. Alternatively, aspects of the system which constrain co-ops can be confronted and attempts made to change them; at the very least this includes policies of intervention on behalf of co-ops in markets for finance capital, but also includes intervention in product markets. In the next chapter I examine the nature of policies from competing economic and political perspectives towards the role of co-operatives.

12. Worker co-ops: policies and prospects

Co-ops and Capitalism

The final issue to be addressed concerns the extent to which co-ops have contributed, and can potentially contribute, to a transformation of capitalism, in the light of the experience of co-ops in Britain. From their earliest days co-ops have been supported because they were perceived as having the potential to improve the position of workers; this support has come from both liberals and socialists, although there are major differences in their respective conceptions of capitalism and of workers' position within it. In this chapter I move from the commercial performance of co-ops to a consideration of their wider impact and role in the economy, and examine the extent to which they may advance the political economy of labour.

Co-operatives appear to strike at the basis of capitalism, the division between those who own the means of production and those who have only their labour power to sell to these owners. This division is removed in co-ops and the basis of ownership changed; as worker-owned enterprises they can be seen as potentially system-transformatory. Certainly the very structure of co-ops confronts the established capitalist form of ownership and control, but the outcome of this confrontation is uncertain. Capitalism contains the seeds of its own destruction; the question is whether co-ops are, or can be, part of this process, or whether in practice they strengthen capitalism.

Much support for co-ops as a means of confronting capitalism has been on the basis of their potential contribution to a gradual process of transformation of society, as an alternative to a sudden revolutionary seizure of power by the working class. This approach was taken by 19th century utopian socialists such as Owen and Neale, idealists who thought that the world could be changed simply through the power of logic, argument and example[1]. They lacked both a developed conception of capitalism as an economic system and a political strategy, and outside of a few isolated experiments their ideas never took hold. In recent years their approach has been taken up by Oakeshott and Campbell[2]. Although they have campaigned vigorously for co-operatives, their models do not stem from the articulated

1 *Morton, 1976.*
2 *Oakeshott, 1978; Campbell, 1987.*

needs of the working class, and tend to attract support mostly from capitalists. However, there are similarities with current elements of Labour Party strategy, including that of some local authorities. For these advocates, the outcome of an extension of worker co-op activity (or perhaps other forms of social or worker ownership) is seen as the gradual emergence of a 'post-capitalist' society, by reform, which avoids the problems of centralised state socialism as experienced in eastern europe. While there is widespread support for the objective of democratic worker control in the economy, the proposed strategies or process by which the objective is to be achieved is generally based upon dubious analytical foundations.

Frequently this reformist approach is derived from a concentration on ownership relations, which are equated with production relations; if the former are changed then so are the relations of production, and other desired changes can follow gradually. Essentially this identifies socialism with making workers the 'owners' of capital, and is embodied in the frequently-used slogan that in co-ops "labour hires capital rather than capital hiring labour". This views 'capital' as a physical object, and in this sense of course workers would own (or hire) capital under socialism.

However it is impossible to gain an understanding of capitalism (or socialism) by viewing capital in physical terms. In Marx's analysis of capitalism:

> Capital is itself a social relation: specifically it is the social relation involved in the self-expansion of value, the production, appropriation and accumulation of surplus value. Capital, being self-expanding value, is essentially a process, the process of reproducing value and producing new value. In other words, capital is value in the process of reproducing itself as capital and, being a process, it is in a state of motion. The circuit of capital describes this motion and it highlights the fact that capital takes different forms in its circuit or reproduction process. The social relation which is capital successively assumes and relinquishes as clothing the forms of money, productive capital and commodities.[3]

To view capital in physical terms is therefore to mistake its appearance for its underlying form[4]. Once capital is viewed as a process or a social relation then our conception of capitalism, socialism, and co-ops' role in the transformation between them, is changed.

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3 Fine & Harris, 1979, pp. 3-4

4 "Economists are often struck with naive astonishment 'when what they have just thought to have defined with great difficulty as a thing suddenly appears as a social relation and then reappears to tease them again as a thing, before they have barely managed to define it as a social relation'." I.I. Rubin, Essays on Marx's Theory of Value, Black and Red, Detroit, 1972, p. 29, quoting from Marx's A Contribution to the Critique of Political Economy, Charles M. Kerr & Co., Chicago, 1904, p. 31. Thanks to Fine (1980).

Firstly, capital as a social relation is historically specific to capitalism, and thus would not exist in socialism. Some of its physical forms will exist; production will take place and hence means of production will be required, but capital as a social relation is incompatible with socialism. Secondly, the class relations of production extend beyond ownership relations, and are integrated with the processes and relations of distribution and exchange. Thus changed ownership relations in production must confront markets and the continued existence of commodity relations, and cannot be considered in isolation from these. Thirdly, although co-ops do confront and transform capitalist ownership relations, their role depends on more than these changed ownership relations; it is not just the relationship of co-op workers to the physical means of production which is important but their relationship to the *process* of capital accumulation.

Because the relationship between workers and capital is a social relation and not simply an ownership relation, it extends beyond the enterprise itself. Focusing solely on the changed ownership relation in co-ops omits consideration of the wider scope of social relations, that is, the double nature of labour's subordination to capital, both 'within the enterprise and through the nature of value production and expropriation in the economy as a whole'[5]. Analysis of the impact of co-ops must focus on both changed relations within the enterprise and within the economy.

To what extent can co-ops contribute to advancing the interests of workers? It is necessary to point out that this question does not relate to the conception of workers as a group involved in the production process, but to workers as a class. Advancing the interests of workers means, then, not just improving the position of workers within any co-op or co-ops, but improving the position of workers or labour as a class in society as a whole. It is certainly possible for co-ops to improve the position of workers in the enterprise (although even this is not assured) but much less clear-cut at the level of the economy. Clearly co-ops start by transforming ownership relations, but the task is to analyse what their real significance and potential can be in the context of their wider relationship with capital. What contribution do they make to transforming the social division of labour or the political economy of class struggle embedded within the system of relations? In concrete terms, what role are co-ops playing in the current process of restructuring and how do they contribute to the conflicting class interests of capital and workers?

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5 Haworth & Ramsay, 1984, p. 313.

There is a parallel here with the experience of nationalisation, which has shown that 'social ownership' does not necessarily transform a capitalist economy, and can in fact serve capital's interests. In this case, social ownership was not supported by the necessary political and economic changes. Certainly co-ops face the same danger as any reformist strategy: if they should come to constitute a real threat to capital then repressive forces would be mobilised to eradicate them or neutralise any threat through incorporating them. This is not the same as saying that capital's strategy would inevitably succeed, but the pressures upon co-ops would become intense. In fact there have been continuous attempts to incorporate co-ops and blunt their transformatory (i.e. revolutionary) potential, and particularly during the current process of capital-oriented restructuring. In the rest of this chapter I examine how capital has attempted to achieve this, the nature and adequacy of the left's response.

Impact of Political and Economic Environment

The experience of co-ops in Britain and elsewhere shows that the extent of their development and the form which they take is fundamentally influenced by the nature of the economic, social and political environment in which they operate. Chapter 5 detailed the emergence and massive growth of Britain's co-op sector over the last decade in relationship to material changes in the economy, in particular the economic crisis since the early 1970s and subsequent extensive restructuring. The growth of co-ops was specifically related to the changed role of small firms in the economy, renewed attempts to undermine the labour movement, disillusionment on the left with the experience of nationalisation, and the emergence of local authorities as the main power base of the Labour Party in the face of Tory control of central government. Similarly, studies of individual co-op sectors have traced the influence of economic changes on the development of co-ops within each industry.

This is not widely appreciated within the co-op movement, or by those associated with it, where the autonomy of co-ops and the movement is considered paramount. Co-ops can represent an attempt by workers to gain control of their labour to fulfill their own needs and interests. Hence the widespread preference for "bottom-up" development, where co-ops emerge as grassroots initiatives, rather than being imposed on people in a "top-down" fashion from outside. This has been a crucial element in the resurgence of new co-ops, which have mainly been 'new starts' by groups of unemployed workers. However, this view can lead to an over-emphasis on the autonomy of co-op workers' decisions, neglecting the impact which economic events have on them. Their formation is a response to specific economic circumstances - it is only due to the economic crisis that the workers are unemployed in the first place - but more important is the impact of the economy on co-ops once they have started trading. They are crucially affected by the nature and strength of competition from other firms, by their own attempts to pursue objectives counter to profitability, and by the availability of financial support, market protection and training, to counter their economic weakness.

The experience of workers at Lucas Aerospace provides a parallel with the more recent co-op growth and illustrates these limitations[6]. The development of the Lucas Alternative Plan was an attempt by workers to gain more control over their jobs, over both the nature of their work and the products made. Threatened with closures and redundancies in factories manufacturing defence equipment, the workers drew up detailed plans for the manufacture of socially useful products for which a need had been identified - including kidney machines and other medical equipment, transport equipment and alternative technologies. In the end the plan failed in this immediate objective, although it did act as a great inspiration to many workers in Britain and elsewhere. But the failure was not due to shortcomings on the part of the workers; on the contrary, they demonstrated skills and abilities which were not usually called upon in their work. The Plan failed because of the way the economy was (is) organised: the economy requires firms to make profits, and *this* determines what is produced. Unless the state would agree to create a market for socially useful products, then Lucas could not sell them at a profit. And it is not as if requiring the state to provide a market was a radical departure from existing practice: the majority of Lucas Aerospace's products were defence related, purchased by the British or foreign governments (and hardly socially useful).

Similarly, the ability of co-op workers to take autonomous decisions cannot be divorced from the social relations of capitalism which surround them. Decisions about products, pricing, growth, wages, employment levels, investment and the nature of work cannot be isolated from the competitive process of which they are a part. Although co-ops do reflect initiatives by workers and have the potential for extending worker control - by their very nature - their character and prospects largely result from the impact of external influences.

6 *Wainwright & Elliott, 1982; Open University, 1982 (Unit 6).*

The nature and effect of these can vary; competition tends to accentuate economic weakness and inhibit attempts to transform the labour process, but other social and economic forces can support attempts to extend worker control. Throughout their existence co-ops have been subject to the contradictory forces of workers attempts to strengthen their role both in co-ops and as a class, and capital's attempts to either to destroy co-ops or manipulate them so as to weaken, rather than strengthen, workers. The following section will examine recent attempts to incorporate co-ops to serve capital's interests and blunt workers' power in them.

UNDER THE INFLUENCE OF CAPITAL

One apparently contradictory aspect of co-op growth is the extent to which these enterprises, with the means of production owned by their workers, have been welcomed by those on the economic and political right. This support indicates the confidence of capital that co-ops can be subordinated to the capitalist economy and incorporated within it, rather than offering a challenge, but this support is itself part of the process of incorporation. There have been attempts to draw co-ops into capital's wider strategy of undermining the labour movement, as the following article illustrates:

> The Government has emerged as a champion of workers' co-operatives, especially those that would be formed round the privatised parts of the public sector. Local authorities and local and regional health authorities are examining the possible attractions of workers' ownership of hived-off services such as laundry, cleaning and maintenance. It is thought that such arrangements could defuse some political problems frequently attending such moves.
>
> Mr Norman Tebbitt, the Trade and Industry Secretary, often thought of as a hard-line Right winger, has given such initiatives his blessing. .... Mr Tebbitt said the government wished to encourage more workers' involvement and wider share ownership. He pointed to the National Freight Corporation and the Tyne and Grangemouth ship repair yards as instances where workers bought out publicly-owned concerns. Mr Tebbitt said he would take a "continuing and close interest" in efforts to promote wider share ownership and employee participation[7].

The same article went on to quote Mr George Jones, head of the national Co-operative Development Agency, as saying that "trade union hostility to privatisation could be deflected by using workers' co-operatives".

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7 *Financial Times* 15.2.84.

Worker co-ops offer all sorts of advantages to the right. Firstly, they are part of a more general trend towards wider share ownership, profit sharing, and employee participation in capitalist companies. All of these measures are designed to conceal underlying class relations in the economy, to promote 'worker capitalism' or a 'job-owning democracy', and undermine the role of trade unions in representing workers' interests. Co-ops are particularly suitable; because the workers are also owners, they can be promoted as enterprises where there are no divergent interests and trade unions are unnecessary (shades of Franco's Spain?). Secondly, they fit more generally into plans to restructure the economy in according to the needs of capital, as

> they provide a source of cheap, non-unionised 'peripheral' labour which is an important supplement to the 'central' workers located in the larger factories and offices.[8]

Co-ops taking over privatised functions are doing exactly this; substituting poorer employment conditions for secure, well-paid and unionised jobs in municipal workforces.

Wages, trade unions and the labour market

Support by capital for worker participation in ownership cannot be divorced from its broader aims of undermining the class power of workers. At a theoretical level, the right has made use of neoclassical economic theory in justifying the need for competition and free markets to promote efficiency and equity. This is extended from product to labour markets, where unemployment can be presented as a market failure; if workers are unemployed - i.e. there is an of excess supply over demand - it is simply because the price of labour (wages) is too high, and is somehow prevented from falling to the rate at which the market could clear and involuntary unemployment would be zero. Trade unions are perceived as major obstacles to the free and efficient operation of the labour market - essentially they are viewed as monopolies of workers ranged against employers, and as monopolies they keep wages at an artificially high level. Trade union strength prevents employers from hiring workers at lower wages and as a result workers are priced out of jobs - hence they identified as one of the main causes of unemployment[9].

The key to solving the problem of unemployment is therefore seen as a reform of the labour market. One aspect is to strengthen the determination of wages by market forces - wage

8 Pelly, 1981, quoted in Wajcman, 1983.
9 Minford, 1984.

rises or falls should be in response to the forces of supply and demand[10]. A major plank of this policy is an assault on the position of trade unions, including changing the perception of unions by workers and the public - instead of being organisations to protect workers' interests, they now actually harm not just workers interests - by increasing unemployment - but also society's interests by enforcing higher than necessary wages, and by retarding economic growth.

Hence one of the main strands of political and economic policy since 1979 has been an assault on the legal rights of workers and trade unions. At the same time, there has been concern that incentives are not sufficient to induce different behaviour by workers. At present workers do not identify sufficiently with their employers, and appear largely indifferent to the success or prosperity of the firm. If workers had an incentive to contribute to and identify with this success, they might behave differently, and industrial relations would improve. The goal is to transform the oppositional relationship between labour and capital so that workers do and *feel they do* share the role of a capitalist. One way of achieving this is to make part of employees' wages profit related.

Incentives, profit-sharing and worker-shareholding

Some economists and politicians have proposed that part of employees' wages should be related to the profits of their employer[11]. This would produce

> the advantages traditionally associated with profit-sharing, such as a closer identification of an individual with the future of his *[sic]* company and make a contribution to industrial relations[12].

But the primary aim is to achieve wage flexibility, so that wages would rise or fall depending on the level of profits. This flexibility would, it is argued, encourage the hiring of workers, would lead to wage reduction rather than redundancies when profits are low, and make a positive contribution to bringing down unemployment. Profit-sharing can therefore be presented as a way of overcoming rigidities in the labour market, and relating wage levels more closely to the supply of and demand for labour, and to profitability.

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10 For instance, wages councils have in the past set minimum wages in certain industries, in an effort to protect some of the most vulnerable sections of the workforce (e.g. in the hotel/tourism/catering trade). In these industries wages have been low and trade union organisation very limited. Since 1981 the government has reduced the power of wage councils to set minimum wages have been reduced, and as a result wages in these industries have already started to decline.

11 e.g. Weitzman, 1984, 1987.

12 Financial Times 25.2.85.

Behind this argument, relying on the logic and neutrality of the market, is clearly the intention to reduce wages by a backdoor method and make them less secure.

> At the level of the individual firm, the employment effects are obtained through .... reducing pay per head .... [and] management must retain and even strengthen its right to hire and fire.[13]

As long ago as 1858 Marx condemned profit-sharing as

> a special way of cheating the workers and of deducting a part of their wages in the more precarious form of a profit depending on the state of the business[14].

This argument has also been used by the TUC, who claimed that profit-sharing schemes were discredited as they increased insecurity for workers[15]. They might have added that relating wages to profits undermines or eliminates the role of trade unions in collective bargaining.

There is mixed evidence as to whether, in practice, profit-sharing schemes transform employee attitudes[16]. Many employees come to see them as no more or less than a bonus, and the whole-company basis of such schemes reduces further their impact on motivation, since the individual employee's efforts bear little relationship to her or his bonus. On the other hand though it has been reported that

> .... the Industrial Participation Association has found that profit-sharers (i.e. those firms with profit-sharing schemes) did significantly better during the eight years up to 1984; for example, their earnings per share were 12 per cent better and their return on capital was 33 percent better[17]....

although of course the introduction of such schemes could result from better performance, rather than the other way round.

There is another side to these schemes, however, in that they may provoke worker curiosity about the company's financial affairs. The CBI have warned that

> as employees' stake grows, so do their expectations that they will share in decisions that affect them.[18]

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13 Samuel Brittan in the Financial Times 25.2.85.

14 Marx, 1858, p. 288.

15 TUC, 1974.

16 Haworth and Ramsay, 1984.

17 Financial Times survey on Employee Ownership, 6.4.86.

18 CBI, 1978.

The arguments in favour of profit-sharing have been extended to employee share ownership, where workers take an ownership stake in their firm. It has many similar attributes to profit-sharing, in terms of incentives and rewards, but ties workers even more clearly into 'worker capitalism'. In fact worker share ownership is more acceptable to capital than profit-sharing because it maintains the sanctity of property rights. Under profit sharing, workers take a share of profits because of their status as workers, but this has the danger that "to preach that labour has the right to share in profits is to corrupt our national understanding of this process"[19]. With worker share ownership this problem does not arise, as the link between ownership and rewards is maintained and strengthened. In 1984, Treasury Secretary John Moore told a distinguished audience that

> workers who are also shareholders will correctly perceive an absolute identity of interest between themselves and the success of the companies for which they work.[20]

In the case of worker share ownership, there is a distinction between schemes where shares are owned individually and those where ownership is collective. The former has the ideological function of reinforcing individualism and blurring the labour-capital relationship. Economically the purpose is to motivate workers to higher productivity by giving them an apparent stake in the capitalist system, which can remain essentially unchanged. There remains a purely cash nexus between workers and their company, as illustrated by the experience of the National Freight Corporation. The NFC was the only nationalised industry in the 1980s to be privatised predominantly by way of an employee buyout, which was followed by substantial increases in profitability and the in value of workers' shares. At their 1988 AGM, an overwhelming majority of the worker-shareholders voted to float the company on the stock exchange so that they could cash in on this value, despite the fact that this would almost certainly lead to eventual loss of control; for them, the prospect of substantial financial gain far outweighed the benefits of worker ownership[21].

Collective ownership of shares has been promoted as a contrast to both individual share ownership and social ownership through nationalisation, most notably by the Labour Party in Britain[22]. This supposedly guards against individualism and does not present individual

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19 from a letter to the Financial Times, quoted in Haworth & Ramsay, 1984, p. 306.

20 Financial Times survey on Employee Ownership 8.4.86.

21 Financial Times 22.2.88.

22 see for example Bryan Gould's speech to the 1987 Labour Party Conference and numerous subsequent speeches in 1987/88.

workers with the temptation to trade in their shares for cash. The idea has also been pursued in the USA where ESOPs (Employee Stock Ownership Plans) have proliferated rapidly since 1974. By 1986 more than 5,000 US companies had set up ESOPs[23], but 85% of the 10m workers covered by ESOPs were in companies which were less than 15% employee-owned, while 5% were in companies with more than 50% employee ownership[24]. In cases where the ESOP owns only a small proportion of the company's total stock, potential worker control is limited, and even where there is majority worker ownership any democratic control can be diluted by the particular relationship between workers and the trust which actually owns the shares. Schemes where an ESOP owns most or all of the stock are generally established in 'rescue' situations, where they have frequently been promoted as a means of undermining union resistance to redundancies and closures, and are usually part of a restructuring package. Many such ESOPs have subsequently led to lower employment, increased productivity, and reduced union influence in the restructured firm, and their role is clearly to secure workers' acquiescence in capital-oriented restructuring; their main attraction is the flexibility they allow to employers. In several well-publicised ESOP rescues, the firm eventually collapsed anyway amongst heightened bitterness and very poor industrial relations. Even when they have stayed solvent ESOPs have also failed to bring much democracy to their firm; typically the banks which provide financing for ESOPs insist that worker representatives receive no more than a minority of a company's board sets until their loans have been paid off[25]. However this is not always the case, and there are examples where unions have won significant influence over company policy as a *quid pro quo* for the restructuring involved in an ESOP deal[26]. Although ESOPs represent a capitalist initiative, US trade unions - faced with low and declining membership - are now less opposed than they once were, and have accommodated them out of necessity whilst attempting to gain maximum advantage from them; nevertheless, workers' involvement in ESOPs is generally to save jobs rather than through any ideological commitment. In Britain, an ESOP structure is now being promoted by the trades union-sponsored bank, Unity Trust, although without any of the favourable tax concessions which have made them so popular in the USA.

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23 *Russell, 1988.*

24 *Seminar by Adam Blumenthal, Open University, 20.10.86.*

25 *Russell, 1988, p.25.*

26 *e.g. Wheeling Pittsburgh Steel.*

In theory ESOPs and other capital sharing schemes do have the potential to advance worker control, and cannot automatically be dismissed as a means of transforming class relations and socialising the means of production. But in practice there are severe limits to what can be achieved. ESOPs in the USA have certainly managed to preserve some jobs, but at the cost of lower wages and an overall weakening of the power of the labour movement. As an employer-led initiative, ESOPs contrast with the capital-sharing schemes proposed by the Swedish trade union movement (LO); these have been virulently opposed by capital and increasingly watered down. Haworth and Ramsay conclude that:

> Capital sharing does seek to advance the political economy of labour against that of capital .... but on balance it does not seem to us likely to challenge fundamentally capitalist relations and more probably it will promote the status quo through that juridicial deception, the collective 'worker capitalist'[27]

As with co-ops, worker shareholding does start to transform labour's subordinated relationship to capital in the enterprise, albeit in varying degrees. But the challenge to labours' subordination to capital in the economy as a whole is much less clear cut.

There is of course a contrast between worker co-ops and worker share ownership - the basis of ownership and control. In co-ops, the right to participate derives from status as workers; those who contribute labour have formal control, on an equal basis. In the case of employee shareholdings - either in combination with external capitalists[28], or in an employee buyout[29], the basis of control remains financial. It is not employees' status as workers *per se* which entitles them to control, but their status as shareholders, and moreover control is unequally distributed, depending on the number of shares owned. Whilst all of these initiatives reinforce the link between ownership and control, between property rights, incentives and rewards - in itself a part of capital's ideology - at least in co-operatives ownership is on the basis of labour rather than capital. As a result, co-ops do present more of a challenge to very basis of capitalism, although this may be more formal than real. Nevertheless, it is real to Mrs Thatcher, whose support for co-ops is distinctly lukewarm because apparently "she thinks its a step down the road to workers' Soviets"[30]

The extreme case of labour in worker-owned enterprises being subordinated to capital on a social scale has been raised by Cowling:

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27 1984, pp. 311,317-8.

28 as encouraged in recent finance acts with tax concessions.

29 such as NFC.

30 The Observer 22.1.88.

> .. by converting from industrial to finance capital, capitalists could avoid the increasing conflict in the process of production and retire into a position of supplying capital at arms length to worker controlled enterprises. Workers would be left to resolve the problems of production and would compete amongst themselves, that is, among worker-controlled enterprises, for capitalist funds[31].

This is essentially the structure advocated by Peter Jay as a remedy for the contradictions inherent in an advanced capitalist economy[32]. The mechanism by which co-ops are kept in check - and would remain so in the above scenario - is the need to compete and survive in the market. The importance of this is illustrated in the following speech from Conservative spokesman Kenneth Clarke:

> No one on this side of the house had anything at all in principle against the idea of workers' co-operatives. Properly managed they seem to me and many of my Right Honorable friends to be an attractive idea. We are principally in favour of them so long as the workers who own the industry raise capital on the market and aim to produce a proper return on the capital, and *so long as they are subject to the same disciplines as anyone else running an industry*. Most important of all we are certainly in favour of workers co-operatives as long as they can be viable without continued support from public funds. (House of Commons 22.3.77) (italics added).

and the same point was made again the following year:

> The Conservative Party is favourably disposed towards worker co-operatives or worker-owned enterprises so long as they operate in the market on the same terms as their competitors (6.4.88).

Thus capital would rely upon market forces to keep co-operatives in check, although there remains the possibility that co-ops may deviously attempt to avoid replicating capitalist practices; therefore Kenneth Clark continued, in his 1977 speech above, to urge the Triumph Meriden co-operative to end their flat rate pay system in the name of 'realism'.

There has been very little *direct* intervention by the right in support of co-ops, as would be expected from a government proclaiming faith in market forces. One exception has been continued funding for the national CDA. This runs counter to the general policy of reducing expenditure on 'quangos', but the national CDA does promote co-ops with a 'small business' outlook. This is despite the CDA's close links with the Co-operative Union and the consumer co-operative movement, which itself has close historical and present day links with the trade union movement.

31 *Cowling, 1982, p. 114.*
32 *Jay, 1980.*

Market Forces and Intervention

Although there has been little central state intervention since 1979 around co-ops, it does not follow that co-ops have been unaffected by state activity. The period since 1979 has seen both a strengthening of the operation of market forces, and extensive state intervention in the economy, which has had an impact on co-ops.

An essential element of government policy since 1979 has been the reassertion of market relations in the economy and an apparent return to *laissez faire* capitalism. The market is usually interpreted as the process by which decisions concerning what and how much is produced and consumed, and by whom, are reconciled by the price mechanism[33]. This is contrasted by direct government involvement in these decisions.

However, this is a particular interpretation of the market process, and reflects the primacy afforded to exchange in bourgeois economic theory. The process of exchange, and the conditions under which it takes place, is part of the wider process of capital accumulation. If we start with production, then within a capitalist economy the form of exchange emerges as a consequence of the requirements of accumulation. Therefore, an extension of market relations in exchange can be associated with extensive state intervention in the economy as a whole. This may seem paradoxical, but the key to understanding is not to focus upon the market itself but on the restructuring process of which the extension of market relations are a part. Once the crucial process is seen not as an extension of market relations *per se* but a process of a restructuring of the conditions under which capital accumulation takes place, then the role of government intervention becomes clearer.

Polanyi notes that even in the heyday of *laissez-faire* capitalism in Victorian Britain, the extension of the market was very much an act of the state itself.

> Then, as now, state intervention is necessary to restrain the impact of unfettered market relations, for instance, through legislation to ensure public health, institute social insurance and regulate trade. Not only to provide social cohesion but also to promote the smooth working of the market itself, the state had to protect, regulate, subsidise, standardise and intervene.[34].

Restructuring has had two main objectives around the ultimate aim of creating conditions where profitable accumulation can take place: firstly, the removal of unprofitable capitals,

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33 see e.g. Begg et al, 1987, p. 11.
34 Polanyi, 1957.

through their exposure to competition, so as to improve the rate of profit for those remaining; secondly, the weakening of labour to give capital more power in determining the conditions under which production and accumulation take place. These objectives have required substantial state intervention since 1979, of which the main measures have been[35]:

- monetarist economic policy
- Public sector cuts and privatisation
- Internationalisation of the economy
- Removal of workers legal rights

These contrast with the predominant form of state intervention over the post-war period, which was largely oriented towards Keynesian demand management. Although a strengthening of market relations taken on its own indicates less state intervention, a significant degree of intervention is required to bring about the changes on which this strengthening is dependent. These may not be overtly economic, but frequently involve legal changes which have major economic implications - such as those relating to the legal (and hence economic and political) power of trades unions. Furthermore, changes must in any case be viewed as part of a whole set of economic policies, in which state intervention plays a major part. The large number of major (and usually controversial) pieces of legislation which parliament has dealt with since 1979 is evidence of this.

According to neoclassical economic theory, the market mechanism is the most efficient means of allocating society's resources. Efficiency is defined relative to consumption - the tastes, preferences and endowments of individual economic agents - and is biased towards the maintenance of the *status quo* through the use of the Pareto-optimum criteria. This provides a useful basis for propaganda around the need to strengthen the market and competition. Focusing attention on the market has a useful ideological function; it concentrates on the position of people as consumers, as individual agents forming the basis of society, rather than on their role as producers having collective, class interests.

The economic function of market forces within capitalism has varied, and the *laissez faire* principle has been readily sacrificed if accumulation would not be served by it. Thus when British Telecom was privatised, the need for a strong monopolistic telecommunications

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35 see chapter 5 for full details.

company which could hold its own in international markets was considered more important than opening up the domestic market to more competition[36]. The market mechanism provides one means of weeding out unprofitable capitals, a process generally in the interests of capital as a whole, but which is particularly necessary during economic crisis. At certain times the opposite policy may serve capital's interests. One example is the extensive nationalisations of the post-war period; if the logic of the market had been allowed to work through to its conclusion, large parts of these industries would have closed down when profitable accumulation could no longer be supported. Although ideological motives facilitated the carrying out of such nationalisations, their primary function has been the prevention of bankruptcies in essential industries which would have harmed capital as a whole; once the industries had been nationalised they operated largely as if subject to market criteria, and are now being returned to the private sector. The degree to which the market has been allowed to operate has essentially depended upon the requirements of accumulation.

The controversial issues surrounding state intervention, market forces and the prospects for co-ops are well illustrated in the case of local authority service provision. Recent government policy has included legislation to limit the power of local authorities to provide certain services without having first engaged in 'competitive tendering'. Under the 1988 Local Government Act, local authorities are obliged to put out to tender a wide range of services including refuse collection, catering and vehicle maintenance; any 'in house' provision of these services will be subject to competing bids from private contractors. This is a move to ensure the private sector provision of such services, rather than the cheapest provision. It has to take place regardless of the previous level of service provision, and the government retains the power to force local authorities to engage private contractors, even if an 'in house' bid is the most competitive.

This offers the potential for workers' co-ops to take over some of these functions. After all, in several European countries co-ops have flourished through securing local authority work. Could the same happen here - is this an opportunity for workers to put control over services in their hands by forming co-ops to bid for contracts? Some CDAs have already started encouraging co-ops do exactly this, attracted by the argument that democratic control is preferable to exploitation by a capitalist contractor, that this is an opportunity to

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36 although nominal competition for BT was provided by Mercury.

demonstrate that worker-controlled businesses can deliver the goods with a social conscience.

The reality would be very different. For gains to be made on the scale of those achieved by co-ops Italy and France, councils would need to provide preferential treatment for co-ops, but this will clearly be disallowed by the banning of conditions placed in contracts based upon 'non-commercial' criteria. In the absence of this, the prospects for workers in such co-ops are grim. The Treasury concluded that "Most of the savings from contracting out arise because of poorer conditions of employment .... they eliminate bonus schemes and overtime working, provide little if any sick pay, and avoid national insurance payments by means of more part-time working"[37]. The main contractors in the area are two multinationals - Hawley and BET - who have scant regard for wages and conditions in the pursuit of profit. Given the outlawing of non-commercial criteria, co-ops would have no choice but to compete with these companies on the same terms, with co-ops' lack of finance exacerbating the problem of poor wages and working conditions. Co-ops - or indeed any small enterprise - would be able to compete only on the basis of intense exploitation of labour[38]. Any aspirations that co-ops could provide more satisfying and democratically-controlled work would be rapidly crushed; "co-op jobs gained through competitive tendering would be firmly controlled by the market which is not open to negotiation"[39]. Co-ops workers would also be highly vulnerable, as it is anticipated that "some workers might choose redundancy and use the money coming to them to set up in business"[40], money which would of course be lost if the venture proved unable to compete. A perfect solution for capital: not only is the cost employing these workers, and hence of providing essential services, reduced, but capital is also rid of the problems of managing the labour process and dealing with worker resistance. To cap it all, potential costs to capital through the provision of finance are offset by the use of workers' own savings; capital then receives all of the benefits (through lower costs and higher profits) and bears none of the risks - clearly a case of having one's cake and eating it. For workers on the other hand, wages would be both lower and less secure.

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37 H.M. Treasury 1986, annex D.

38 a classic example of Schutt & Whittington's second category of small firms.

39 David Burnby of Humberside CDA, in New Co-operator 1988, no.1.

40 Eamonn Butler, director of the Adam Smith Institute, in the Municipal Journal, 22.1.88.

The promotion of co-ops in this area not only fails to provide well-paid jobs in a favourable working environment, but undermines other workers' struggles; CDAs involved in this must be quite clear about whose interests they are serving. On both a propaganda level and an economic level, the readiness of workers' co-ops to take over privatised functions undermines workers' campaigns to maintain in-house provision. If competitive tendering cannot be avoided, then workers' struggles are much more effectively served by using traditional trade union organisation and collective action to defend pay and conditions in large private sector employers, than by dividing workers amongst small co-operatives where their preoccupation is competing with other workers and coping with the harsh truths of commercial survival.

I shall return to the issue of the market relations and their significance for co-ops later. At this point, the important point is that an extension of market relations does not mean that state intervention is absent, but that its form has changed.

Opposing capital? Local authority support for co-ops

Intervention by the state to strengthen market forces will have a negative impact on co-ops; those which are subject to the most intense competitive pressures are commercially weak, and highly constrained in pursuing worker-oriented perspectives. In these circumstances co-ops would closely replicate small firms, including their instability and poor working conditions, and will find the pursuit of non-capitalist objectives more difficult[41].

The relationship between the co-op sector and the state is therefore a crucial issue. Although there is a tendency to reject the idea of state intervention whilst valuing co-ops' autonomy, this ultimately leaves the sector vulnerable to adverse state policies. Rather than rejecting the notion of intervention altogether, the need is to influence the form of intervention in favour of co-ops.

What then are the conditions which would strengthen the co-op sector in its confrontation with capitalism, rather than allowing co-ops to be subsumed within it? There are three aspects to this task: firstly, to reduce their economic weakness and ensure they can pay going wage rates etc.; secondly, to support the transformation of the labour process within

41 There is a parallel with the experience of building societies, which were established as mutual societies, controlled by their members and operating in their interests, but over a long period they have gradually become less distinguishable from capitalist financial institutions.

co-ops; and thirdly, to strengthen co-ops as part of the collective advance of the working class. As a contrast to the capital-oriented policies implemented by central government since 1979, we can turn to the policies adopted by various local authorities and examine whether they provide a contrast in terms of the development of co-operatives.

Intervention to promote capital-orientated restructuring has not taken place unopposed in Britain, and at local level there have been economic policies introduced to counter the worst effects of central government policies. Many Labour-controlled local authorities adopted economic policies over this period in which co-operatives have a specific role, and which contrasted with the approach of the right towards co-ops[42]. Although a range of different policies were adopted, they centered on the (contradictory) policy of 'restructuring for labour by investment in capital', although in the more straightened circumstances since 1986 the more radical objectives of certain authorities have given way to a 'new realist' consensus of a more conventionally social-democratic nature on the role of the local state in relation to the market[43].

Nevertheless, the various authorities have adopted a variety of policies concerning both co-ops and economic issues generally. The approach taken here is to contrast typical policies taken by a wide range of authorities with those of the GLC. The GLC was the largest local authority, and its policies were not generally representative of those carried out elsewhere; they were the most thoroughly developed and the most explicit in the objective of advancing the political economy of labour.

In general local authority intervention in support of co-ops has had three main stated objectives[44]:

• creating jobs at a time of high and rising unemployment, and in particular jobs which would be under local control and produce for local needs;

• complementing equal opportunities policies by encouraging co-ops which provide work for black and women workers, and others marginalised in the labour market.

• providing alternative ways of organising work and the economy.

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42 some Alliance councils (remember them?) adopted similar policies.

43 Geddes, 1988.

44 Macfarlane, 1986, p. 19.

In practice the first objective, employment creation, has been paramount, and most councils have supported co-ops as an adjunct to wider policies of small business and industrial development. For Labour-controlled authorities in particular, support for co-ops had the added advantage of potentially offering improved working conditions and could be seen as a form of community development; these were bonuses on top of any jobs that might be created.

There are two elements to the policy of supporting co-ops on the basis of their employment-creation potential. The first is that small firms or enterprises are more effective job-creators than large enterprises. The second is that, given this, co-ops themselves are more effective employment creators than capitalist firms. In view of the widespread support for both these propositions, I address them both below.

Small firms and employment creation

The most influential research in support of small firms as a generator of jobs has been that of Birch. In a paper entitled "The Job Generation Process"[45], he analysed 5.6 million establishments in the USA over the period 1969-1976. Birch claimed that firms with less than 20 workers contributed 66% of jobs generated in the US between 1960 and 1976. Firms with less than 100 workers generated 82% of jobs, and those with over 500 generated only 13%. As a result he argued against indiscriminate incentive policies aimed at large firms, and in favour of 'rifle shots' aimed at specific small firms.

Birch's conclusions have subsequently been subjected to much criticism. Armington & Odle[46] undertook a similar analysis for 1978-1980. They found that while over this period private sector employment increased by 8.7%, and 78% of this occurred in establishments with less than 100 employees, these establishments employed only 49% of the private sector labour force - therefore on an establishment basis small businesses employ around half of the workforce but provide eight out of every ten new jobs. However, once they examined *firm* size rather than *establishment*[47] size, they found that firms with less than 100 workers provided 36% of the labour force and generated around 39% of the new jobs - i.e. "the new

45 Birch, 1979.
46 Armington & Odle, 1982.
47 A single firm can operate from several different establishments.

employment growth contributions of both large and small businesses appear to be roughly proportional to their respective shares of the labour force"[48].

Birch's analysis also concerned *net* jobs generated. According to the GLC

> all the evidence we have suggests that larger establishments account for a much greater proportion of both job loss and new jobs gained than do small firms, even though their net 'balance' may be less. .... [hence] ... there appears to be greater scope to influence employment levels by reducing job loss and expanding job creation by large firms than by confining policy to job creation by small firms."[49]

This is echoed by evidence quoted in the *Financial Times*, concluding that

> it will be years before Britain's new high technology firms replace the jobs lost from older, larger companies. The jobs created by Britain's fastest growing computer manufacturers, Sinclair Research, Systime, ACT, Acorn, Panorama and Torch are dwarfed by about 10,000 redundancies at ICL (Britain's biggest computer company) in the past three years[50].

Fothergill and Gudgin[51] relate Birch's conclusions to his ideological stance. His suggestion that small firms should be encouraged still further was eagerly seized upon by the small firm lobby and the right in both Britain and the USA; whereas on the basis of his evidence it would have been quite reasonable to conclude that larger firms were in difficulty and more should be done to help them, as they clearly dominate overall employment. The GLC concluded that small firms tended to predominate in technologically backward and low-productivity sectors, with a limited capacity to generate a re-investible surplus. In formulating the London Industrial Strategy, they decided to concentrate intervention towards rebuilding the London economy on medium and larger-scale firms.

Storey *et al*[52] have analysed the small firm sector as a target category for employment policy. On the basis of a substantial database of enterprises in north-east England, they have found that aid to small firms is of limited value as currently applied. Small firms have a high mortality rate, and the vast majority create only one or two jobs beyond those of the proprietors; about half of the jobs created came from 3-4% of total small firms. Much aid

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48 *Armington & Odle, 1982, p. 17.*

49 *GLC 1983, p. 7.*

50 Financial Times 23.6.84. *Whatever happened to all of 1984's famous names? Certainly Sinclair and Acorn, the two most well-known of them, have been saved from bankruptcy only by takeover by larger computer firms (Amstrad and Olivetti respectively).*

51 *Fothergill and Gudgin, 1985*

52 *Storey et al, 1987.*

directed indiscriminately at small firms tends to be wasted; their conclusion is that if aid is to be directed towards those specific small firms which are likely to grow, it requires a detailed and highly interventionist 'hands on' approach by public authorities. This gives lie to the belief that small firms in general left to compete freely in the market will flourish and achieve the objectives set out for them. Relating this to Birch's work, the crucial question is how are the firms selected to which the 'rifle shot' assistance is to be aimed?

The general category of 'small firms' is itself one of dubious usefulness for analysis. It does not necessarily describe a homogeneous group; small firms differ widely in their type of business, market and competitive pressures, their relationship to large firms, wages and employment conditions, profitability and prospects for growth. To the extent that small firms are active in employment creation, this results from, in part, a shift of economic activity (e.g. from broadly defined 'manufacturing' to 'services'); the role of small firms reflects a changing industrial structure rather than any intrinsic merit of small firms themselves. These economy-level changes must be included in any analysis of the role of and prospects for small firms.

Co-ops and employment creation

The second supposition is that co-ops are themselves more effective in employment creation than comparable capitalist firms. This is a relatively under-researched area and many contrasting - and sometimes contradictory - claims have been made. For instance, it is sometimes held that co-ops are more productive than capitalist firms, and therefore will demonstrate superior economic growth; on this basis, a sector comprised of co-operatives rather than capitalist firms should show greater long-term employment growth. However, this does not take account of jobs in capitalist firms that may be displaced as a result of such co-operative growth; nor does it address the issue that with given demand conditions, greater productivity in an enterprise may be expected to lead to lower employment. In Britain evidence suggests that co-ops are in any case less productive than comparable capitalist firms, and are more labour intensive. In these circumstances co-op production would lead to greater employment, but at the expense of lower wages. This identifies the central issue in the debate, which thus turns out to be no different to the Tory solution to unemployment - reduce real wages and employment will increase. In concluding the most extensive survey of the employment-creating potential of co-ops, Estrin notes that

> Co-ops may be particularly attractive to policy makers because they can create jobs more cheaply than capitalist firms by mobilising workers' effort, wage flexibility and perhaps even their savings[53].

The evidence of this present research is that wages in co-ops are indeed lower than in comparable capitalist firms, and there is widespread evidence that rescue co-ops in particular are associated with wage cuts[54]. If co-ops' main potential for increasing employment is on the basis of lower wages, then support for co-ops would be a divisive issue within the labour movement.

The policy of co-op development on the basis of employment creation was flawed from the outset. In Britain, co-ops have failed to have anything more than a marginal impact on unemployment. With only 5,000 or so co-op jobs created throughout the country, the impact in any one area has been tiny. Even when other EEC countries are included, with more supportive environments and much larger co-op sectors, new jobs created in co-ops over 1976-1981 represented perhaps 3-4% of the increase in unemployment over the same period[55]. Some of these jobs are effectively transferred from capitalist firms to co-ops, rather than additional jobs, and so the *net* impact of co-ops on unemployment will of course be even smaller.

In most cases there was little real idea of the resources which would be required to support an effective co-ops policy, and generally the amount of material support for co-ops (i.e. other than rhetoric) was very small. The small impact of co-ops on unemployment in Britain is in part a reflection of this. The most widespread support has come in the form of funding for local CDAs and other support organisations, which are generally involved in aiding the establishment of new co-ops, rather than with continuing support[56]. Most CDA workers are faced with demanding jobs and work extremely hard, but CDA's are small and the resources at their disposal are limited[57]. Some authorities have in addition established small loan funds specifically for co-ops[58]. It may be that the resources devoted by councils to co-op support were the most that could be afforded, but there seems little realistic

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53 *Estrin, 1985, p. 44.*

54 *see Bradley & Gelb, 1983b, for examples of rescue co-ops in Britain, France and the USA; Eccles, 1981; and Stern, Wood & Hammer, 1979.*

55 *Estrin, 1985, p. 5.*

56 *see chapter 5.*

57 *Cornforth & Lewis (1985) report that the mean size of CSOs is 3.1 workers, and that each CSO worker creates an average of 8.4 new jobs per year.*

58 *see chapter 6.*

appreciation of the likely impact of such limited funding. Certainly the sums devoted to the development of co-operatives pale into insignificance when compared with that spent on subsidising small businesses. Munro estimates that over the period 1976-1986, public sector expenditure on co-op support organisations (including ICOM and the national CDA) totalled £17.9m, with a further £10.8m on the direct loan and grant funding of co-ops through ICOF, GLEB, local authorities and loan funds, making a total of £28.7m. According to to one estimate, between 1980 and 1985 government spent at least £1 billion subsidising *small* businesses[59], apart from presumably greater sums spent on larger enterprises - a situation which should give any self-respecting socialist party pause for thought.

Local authority co-op policies have often been accompanied by glowing references to the experience of Mondragon, with its 17,000 co-op jobs and economic prosperity. At the same time there has been little appreciation of the factors behind Mondragon's record and the sheer magnitude of resources mobilised behind co-op development there. Even in Wales, where the Wales TUC dreamed of establishing a similar regional co-op enclave, the crucial role of the CLP in supporting co-ops through the provision of finance, planning and management and in co-ordinating the sector's overall economic development, was missed.

The failure to create many jobs in co-ops is particularly serious given that local authorities continually pressurised CDAs to give priority to the number of jobs created rather than encouraging fewer, better quality jobs[60]. This must be seen in the context of widespread support for small firms and of local authorities' readiness to jump on the small firms bandwagon, without considering the type of jobs that would result.

Drawbacks of Local Authority Co-ops Policy

Although support for co-ops on employment grounds has been largely ineffective, this does not mean that co-ops should not be supported by local authorities. Attention should be devoted to the quality of co-op jobs rather than their quantity, and support forthcoming on the basis of improvements to the nature of work in co-ops rather than simply 'playing the numbers game'. If policy simply concentrates upon new jobs created by co-ops, then jobs which are created in co-ops rather than in capitalist firms make no net addition to employment. If, on the other hand, attention is paid to the potential for co-ops to improve

59 *Edmonds, 1986, p. 25.*
60 *Cornforth & Lewis 1985.*

the position of workers, then the 'transfer' of jobs from capitalist firms to co-ops becomes worthwhile.

Unfortunately the quality of co-op jobs has not been widely considered as an objective, at least outside of London. However, it is particularly important given both the record of small firms, and the concern of trade unions in ensuring that co-ops do not lead to a worsening of working conditions.

One characteristic of small firms is their instability, low wages and poor working conditions, and a widespread anti-trade unionism amongst employers. It is questionable whether this has been appreciated even by most Labour local authorities, and little, if any, attention given to the reasons for it and small firms' marginal economic position[61]. Certainly the economic forces acting on small firms have been neglected, and the same applies to co-ops. As a result the positive aspects of co-ops are seen as flowing automatically from the changed nature of ownership. The special attention which co-ops received was largely devoted to overcoming specifically co-op problems, such as special training needs, and the development of co-op management and administrative structures, rather than changing their *economic* position. Whilst there is clearly a need for such developments, they are inadequate without addressing co-ops' economic position.

The findings in Part II confirm that co-ops are in an even weaker economic position than typical small firms, and although trade union membership is higher, co-ops do appear to pay lower wages. There are compensatory aspects of co-operative working, but the dangers of creating worse working conditions in co-ops than in small firms remains real.

One further perceived advantage of co-ops - creating jobs under local control - does not apply any more to co-ops than to small firms generally; both are vulnerable to economic decisions made elsewhere by large firms who may be their customers, suppliers or creditors. A further advantage of co-operative working - greater job satisfaction - is also a laudable objective, but is often assumed to flow simply from the changed nature of ownership in a co-op, and evidence cited earlier suggests that this is not assured. Economic marginality inhibits any real decision-making power on the part of co-op workers, and wider policies of economic intervention are required to overcome this. Some attention has been devoted by CDAs to developing alternative management structures to stimulate

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61 Rainnie, 1984, p. 159.

participation, but as was made clear in chapter 2, this has generally been from an organisational perspective with little attention devoted to the role of production technology and the division of labour. This is not necessarily the fault of CDA's - it is not realistic for a CDA with two hard-pressed workers to start developing the technology for socially useful production, but it is necessary for local authority policy-makers to be aware of the impact of this.

Although well-intentioned, the economic policies of many Labour local authorities appeared to be devoid of any coherent underlying strategy. This is not particularly surprising; the need to respond to the problems of unemployment, inner city decay and economic collapse came suddenly in the 1970s after a long period of economic stability and local authority activity limited to the provision of municipal services. Shaken by the severity of the problems which they faced, their responses were based around attempts to create jobs, but without an understanding of what had caused their problems in the first place. Rainnie notes that

> Labour local councils in the 'depressed areas' have been clutching on to any straw in a desperate attempt to cope with what is variously described as the 'regional problem' and more particularly 'inner city crisis'[62]. In other words, they have been searching for immediate palliatives to what is a long term problem, namely the restructuring of capital on a national and international scale, one symptom of this being the flight of capital from inner cities. Labour councils are once again blindly trying to deal with the problems created by capital, rather than dealing with capital itself[63]. The inner city problem then becomes isolated from the problems which cause it.[64]

Although in many cases local authorities had little theoretical reasoning behind the support for co-ops - beyond a need to create employment and a belief that co-ops were somehow 'good' - their initiatives tied in with policies developed by the Labour Party at a national level, in particular the party's support for "new forms of social ownership", decentralisation, and the market mechanism. The new policy marked a sharp break with the past and the traditional reliance on nationalisation as the primary means of securing public ownership of the means of production, and state intervention to guide the economy. In view of the prominence given to co-ops[65] within Labour's new policy (the 'Jobs and Industry Campaign'), it is worth examining the thinking which lay behind it.

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62 Cochrane, 1983.

63 Hudson, 1984.

64 Rainnie, 1984, p. 159.

65 Labour Party, n.d.

Labour Party policy

The move away from nationalisation

The first aspect of the new policy was a rejection of the traditional policies of nationalisation and central planning, stemming from the belief that they were inherently limited as an organisational mode. Nationalised industries were perceived as inefficient, bureaucratic, inflexible and undemocratic, and there was concern at the unpopularity of further nationalisations as an electoral strategy[66]. 'We must develop new models of socialist enterprise that build on the initiative and creativity of working people and combine productive efficiency with responsiveness to consumer and community needs, if we are to inspire popular support for socialism'[67]. Associated with this was a concern to maintain a distance from the experience of socialist countries in general and the Soviet bloc in particular[68].

The new version of socialism therefore came to be defined in a somewhat negative fashion: not what had come before in Britain, and not what had been done elsewhere. Such an approach was based upon a complete dismissal of nationalisation rather than a considered appraisal of that experience in the historical context of the post-war British economy. Although the nationalisations of that period represented a triumph for the labour movement, the balance of class forces was such that subsequent policy regarding the nationalised industries - and indeed the state's activities generally - were largely pursued in capitalist interests. Part of the problem of nationalisation was the failure of the labour movement to consolidate those initial gains by securing the operation of nationalised industries in accordance with socialist principles; this reflected both the continuing power of capital in determining economic priorities, and the strong influence of Fabian bureaucratic paternalism on the labour movement and its dismissal of workers control within public ownership as either desirable or achievable. Given the extent of nationalisation in Britain it is remarkable how little attention it has received, and in the absence of considered analysis the views of the right have largely prevailed. One of the few exceptions to this is work by O'Donnell, who concludes that

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66 Whitbread, 1985, p. 126.
67 speech by Roy Hattersley, quoted in Harrison and Morgan, 1985, pp. 38-39.
68 Fine, Harris et al, 1984, p. 6.

> "the record of the nationalised industries reveals not the inherent limitations of this organisational mode, but rather the latter's vulnerability to the particular policies and stance of successive governments."[69]

As for the rejection of central planning, this is to dismiss a policy which has never properly been tried in Britain, whether in the interests of capital or labour. Indeed this failure to undertake any sort of strategic planning has been a primary cause of the Britain's economic problems[70].

The pursuit of democracy

The second strand to Labour's economic policy has been a new emphasis on democracy, freedom and the rights of the individual, and the need to achieve this through decentralisation. This at the expense of both an economic analysis and political strategy based upon class, and is partly a concession to the renewed emphasis by the right on individualism and the role of capitalism and the market in guaranteeing economic 'freedom'[71]. It is also a further justification of the move away from centralised decision-making.

Co-ops have been promoted as a central part of Labour's 'new forms of social ownership', and integrate with the new adherence to market principles, the rejection of nationalisation, and the pursuit of decentralised democracy. Although much of this represents perceived electoral opportunism, a theoretical basis is provided by Hodgson's work[72]. This has had a strong influence on Hattersley and Labour party economic policy generally. Hodgson's economics derives from a Sraffian critique of marxism, and results from his dissatisfaction with two of its central elements - the labour theory of value and the tendency of the rate of profit to fall[73]. Having rejected these elements, he then moves away from the concept of a mode of production and the marxist analysis of historical change. We are thus left with a fundamentally ahistorical analysis, which rejects 'the idea that classes are the prime object of social and economic analysis'[74] in favour of 'structures and systems'. This leads to a very different conception of capitalism, socialism, the transition between them, and consequently the process of political and economic change.

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69 Nolan & O'Donnell, 1988, p. 261, see also O'Donnell, 1988
70 Fine & Harris, 1985; Best, 1986.
71 Hayek, 1944; Friedman, 1962; see Hodgson, 1984, chapter 3.
72 Hodgson, 1982 and 1984.
73 Hodgson, 1974; see also the debates in Socialist Register 1977, 1978.
74 Hodgson, 1984, p. 221

Hodgson considers that

> Capitalism has to accommodate within itself other forms of organisation and regulation; typically the family, planning within the firm, and the state. We shall call these forms *impurities*. The idea that they are necessary to the capitalist system we shall call the impurity principle (as applied to capitalism).[75]

He then extends this to the *principle of dominance* - that socio-economic systems generally exhibit a dominant structure, and 'every socio-economic system includes at least one non-dominant structure .... every dominant structure requires at least one other structure for the system as a whole to function'. This is then given a backing in systems theory and cybernetics[76], and Hodgson then uses these ideas to support his argument that socialism must be economically and politically pluralist. He then argues that the task for the labour movement is 'a difficult but progressive process of democratisation under capitalism, leading to its transformation into a socialist system'. Although a socialist economy would be predominantly based upon planning, markets would have an important subsidiary role. The growth of co-ops is considered to be an important part of the transition process, and they would of course have an important role in the 'market' aspects of the future socialist economy.

The impurity principle supposedly applies to all socio-economic systems, and is incompatible with marxist historical analysis and the historical specificity of capitalism. Clearly not all relations within capitalism are commodity relations, and there may be reasons why socialism will include some elements of market activity, but to rely upon an ahistorical explanation gets us nowhere in terms of understanding why or how this takes place. After all,

> ... the strength of historical materialism is that it allows us to get behind the peculiarities and the seductive ideological ways in which societies explain and express themselves, and look at any concrete society in terms of 'who is doing what to whom'. It is not at all clear that, for socialists, it would be better to start by asking 'what are the structures and systems'[77].

With emphasis on structures and systems, and in the interaction of groups rather than classes in society, the process of social change becomes one of reforming those structures and systems. Whilst Hodgson makes clear his own personal view that society and the

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75 ibid., p. 85

76 'Economics and Systems Theory', seminar at Open University, February 1986.

77 Whitbread, 1984, p. 139.

economy needs a radical and thoroughgoing transformation, this is not a *necessary* outcome of his analytical approach; this contrasts with a class analysis where meaningful change in society - which includes removal of the current ruling class - *must* involve a fundamental transformation of social, economic and political relations. Hence, Hodgson's analysis can form the basis of both a moderate or far-reaching transformation, and in practice it tends to be used as the former.

Although Hodgson raises some interesting issues regarding the nature of a socialist economy, his conception of the transition process is highly contentious, and this essentially stems from the failure to appreciate the nature of modern capitalism. The main flaw is the failure to consider how progressive elements within capitalism will be treated by capital; this follows from his conception of society as constituted by groups and structures rather than classes and class interests.

Hodgson's support for co-ops, and for worker participation more generally, has several constituent elements. Firstly, as extensions to democracy, they are of necessity a step forward towards socialism. Secondly, participation increases labour productivity, and is therefore economically superior and preferable. Thirdly, and following Tomlinson, Hodgson proposes that the pressures of competition and market relations do not determine the way in which enterprises operate, and that there is flexibility within market relations to accommodate co-ops' different objectives.

Concerning the first point, participation can lead to greater democracy and job satisfaction, but it is not necessarily so, as examples from clothing co-ops and Triumph Meriden make clear; securing those gains is conditional upon a range of other factors. Again with productivity: he uses a series of examples to illustrate how co-ops or other participatory structures can be more productive than conventional capitalist ones, but is is equally easy to produce examples where this is not the case - as much of the evidence from co-ops studied in this thesis suggest. Increasing productivity is certainly possible but it is not assured; Hodgson is unconvincing because of his implicit belief that increases in productivity necessarily result from worker participation, rather than examining the conditions under which this will happen. The pursuit of participation has costs involved (at the very least, meetings take time), and this has implications for co-ops' ability to compete.

As with Tomlinson's work, constraints on co-ops freedom are unexamined. There is a tendency to dismiss the issue of co-ops' degeneration in capitalist economies as in any way a real problem, rather than examining the conditions under which degeneration is more or less serious. We would at least expect a response to the question of how co-ops are to avoid replicating capitalist conditions and working practices.

Ultimately the problem with Hodgson's analysis, and the areas of Labour Party policy associated with it, is the failure to appreciate the nature of modern capitalism. This extends to an uncritical examination of co-ops' relationships with the capitalist economy, and the sort of policies which would be needed to ensure an effective role for co-ops in the transition to socialism.

The Experience of the GLC

GLC & Economic Policy

The policies of the GLC introduced by the Labour administration in 1981 represented a contrasting strand in Labour Party economic thinking, and did include an attempt to come to terms with the nature of British capitalism. For the first time the GLC and some other local authorities "abandoned their traditionally passive approach to local enterprise in favour of a more *dirigiste* stance"[78]. In some cases economic initiatives were part of a wider programme of social change, instigated under the direction of left-wing Labour councils. For the GLC, economic policies were aimed at regenerating and democratising London's economy, and were termed 'restructuring for labour'. This involved

- a focus on production relations and industry rather than exchange relations and markets as the arena for economic policy initiatives,
- bringing production increasingly under the control of labour and ensuring that the necessary restructuring took place in the interests of workers rather than capital.

Such progressive restructuring aimed to enhance the 'livelihood, health and human capacities of labour', and more specifically to introduce enterprise democracy, a narrowing of workforce differentials, and socially useful production. The GLC's economic policies

78 *Nolan & O'Donnell, 1987, p. 251.*

contrasted with those of the majority of Labour local authorities and the Party nationally not just in terms of size but also in taking a strategic and interventionist approach.

A central aspect of the policy was the promotion of flexible specialisation (FS) and up-market restructuring in selected firms. The starting point for this approach was the view that accumulation in advanced capitalist countries was no longer taking place under a regime dominated by 'Fordism', that is large scale, assembly-line production of standardised commodities, based upon de-skilling technologies and Taylorist work organisation. Instead, it is considered that a new regime of accumulation - neo-Fordism - is in the making. This is based upon micro-electronic technologies, and is characterised by the production of specialised commodities for smaller, segmented markets. These are produced using advanced flexible manufacturing systems, or 'Flexible Specialisation' (FS), enabling flow production techniques to be applied to differentiated products, which would no longer have to be produced in relatively costly small batch production[79].

Although the introduction of FS was part of capital's restructuring process, some GLC economists held that that the workforce could potentially gain from flexible specialisation, as new technological systems could be implemented without deskilling workers and exacerbating divisions between them. Furthermore, the adoption of this new, competitive technology would enable firms to move up-market into profitable market niches.

The aim was that in providing finance to promote and assist restructuring in selected private sector firms, the GLC/GLEB could force these firms to introduce greater industrial democracy through trade union representation, enterprise planning agreements, and perhaps eventual conversion to a co-operative form[80]. Implementing this policy in selected firms only was partly a response to limited resources but also reflected a belief that exemplary projects would be copied by other firms. Successful restructuring would give these firms a competitive advantage, and if successful, this policy would assist in both reviving the competitiveness of London's industry, and at the same time securing gains for workers.

Underlying this policy was a general belief that this progressive form of restructuring could by and large be achieved within the current operation of market forces, and that their

79 The GLC's analysis draws selectively upon the French 'regulation' school (see e.g. Aglietta, 1979), and the American flexible specialisation literature (Piore & Sabel, 1984).
80 Mackintosh & Wainwright, 1987, p. 162.

reconfiguration was compatible with a range of possible outcomes at the level of the workplace. Thus up-market restructuring amounted to finding niches in new, segmented markets demanding high-quality, high-value added products.

There have been several critical assessments of the GLC's economic policy[81] which - although mostly starting from a basic sympathy with the GLC's aims and values - have generally concluded that there were major flaws. Perhaps the most serious criticism is that the outcome would be to benefit only a small group of workers - those employed in skilled jobs in FS-firms - and fail to advance the material needs of the poorest and weakest groups. Although there is a case to be made that FS can involve a technical improvement in work quality, this is countered by new social dynamics of discipline and control; 'mounting evidence from Britain and America suggests that increased flexibility at the level of particular jobs has been accompanied by greater centralisation of control, work intensification and greater job insecurity'[82]. Workers in FS-firms may benefit from privileged conditions, but the system develops on the basis of 'a whole satellite economy of suppliers, retailers, business services and innovators'[83]. Workers in these support services are frequently part-time, temporary and low-paid, often working from their own homes. A policy promoting FS-restructuring is likely to exacerbate divisions between these 'core' and 'peripheral' workers and thus end up self-defeating.

A second criticism identifies the contradiction between up-market restructuring, and the objective of production for social need. The former essentially responds to opportunities created in the market, while the latter aims to give priority to needs which are neglected by the market.

The example of the 'Third Italy' region from Bologna to Venice is frequently cited to support the potential of such a strategy in regenerating a regional economy[84]. While there has indeed been an economic revival and the region grew as fast as any other in Europe during the 1970s, there is clear evidence that the major workforce divisions have arisen; there is 'an enormous unevenness of conditions of work between workers and lack of security of

81 e.g. Cochrane, 1986; Gough 1986; Nolan & O'Donnell, 1987; Rustin, 1986; Palmer, 1987.
82 Nolan & O'Donnell, 1987, p. 257.
83 GLC, 1985, p. 36.
84 see for example Best, 1986.

continuous employment which makes organisation for common, class objectives extremely difficult'[85]. F.Murray also makes the point that

> the retreat into self-employment, co-operatives, and the poor conditions of the artisan sector was a defensive reaction which followed the dismantling of Emilia's large, and well-organised, industrial bases. It has taken the region's small firms 35 years (over half of which were years of the post-war boom) to develop to the stage where some of them have been able to enter market niches on an independent basis[86]

Although LEI's were to some extent developed in the anticipation that a sympathetic central government would be in place within a few years, the supportive role which the central state was hoped to play in such initiatives was minimal - such as passing legislation relating to minimum wages, equal opportunities and health and safety legislation, and also ensuring that local authorities had sufficient resources to carry out their policies. This could perhaps be extended to stronger state intervention in order channel restructuring in favour of labour, but even so this would primarily be through the local state. It was not considered that a powerful central state, carrying out extensive planning and economic intervention, would be necessary or desirable, regardless of whether or not state power could actually be secured and directed in this way. The role of the state is reflected in the way market forces are dealt with in the formulation of LEI's, and is evident in GLEB's approach to co-ops.

GLC & Co-ops Policy

The GLC's co-ops policy was framed as part of its wider economic policies, particularly in the promotion of democratised production which was responsive to the needs of local communities. Co-ops were specifically included as one way of transferring ownership of the means of production to the workers in an enterprise. However the promotion of co-ops lay uneasily with other aspects of GLC policy, particularly its rejection of small firms and reliance on medium and large firms in job creation and economic development - although it could be argued that in any case this turned out to be a largely rhetorical position anyway. Thus a crucial aspect of the co-ops policy was to ensure that they did not replicate the negative aspects of small firms - poor wages and working conditions, low trade union membership, low growth and poor survival capability. Thus co-ops were encouraged to link actively with the wider labour and union movement[87], while in the longer term the

85 Gough, 1986, p. 68.
86 Murray 1987, pp. 92-3.
87 GLEB, n.d.(b).

objective was to create a co-operative economy and co-operative movement rather than numerous isolated competitive co-ops[88]. Perhaps more in London than elsewhere, co-ops were seen as a vehicle for promoting equal employment opportunities. In addition to supporting new, small co-ops the GLC also aimed to undertake more pro-active developments with larger co-ops through 'phoenix' or rescue situations, and through encouraging some existing businesses to convert to co-operative ownership.

Co-ops could also be seen as complementing the FS-restructuring policy promoted by the GLC. Firstly, co-ops are unsuited to operation in mass-production industries, but potentially able to operate successfully in industries where smaller, FS firms may predominate. Although the capital equipment required for FS production is generally expensive, co-ops can overcome handicaps in this area if sufficient finance is provided through the public sector. Secondly, competitive success would now appear to depend upon flexibility and adaptability in production, upon a compliant workforce willing and able to develop new competences as and when circumstances require. This should of course be easier to achieve in co-operatives than in capitalist firms. Thirdly, co-ops would not suffer from the direct obstruction of capital in the adoption of a progressive labour strategy within enterprises. Fourthly, co-ops often have close links to consumers and the community, which should enable them to be more responsive to changing patterns of demand.

Implementation of Co-ops Policy

The GLC's co-op policy was refined and implemented through GLEB, the Greater London Enterprise Board, which was established in 1982 to carry out industrial and commercial development in London within the broad strategic aims laid down through the council's Industry and Employment Committee. A co-op unit was established within GLEB's structural investment division in 1983. In 1984 the London Co-operative Enterprise Board (LCEB) was set up as a subsidiary of GLEB to deal exclusively with co-ops, and in particular to handle the relatively standardised applications for small amounts of funding.

Once the political decision had been made to support co-ops, the GLC's approach was inspired by the experience of Mondragon. The co-ops unit has a parallel in the CLP's management services division (the Empresarial), taking an interventionist approach to the provision of management expertise and planning. As at Mondragon, the main element of

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88 CAG & Thornley, 1986, p. 2.

the policy was the provision of loans to new and existing co-ops, and this certainly had an impact on a large number of co-ops[89].

GLC policies certainly contributed to the massive growth in the number of London co-ops over the period 1983-6. In terms of increasing the size of the co-op sector in London, the policy can be considered a success. The number of London co-ops rose by over 100% during 1983-1986, by which time some 31% of all British co-ops were located within Greater London[90]. 62% of new co-ops during this period were created with direct financial assistance from GLEB or its delegated schemes. But despite the large number of co-ops assisted financially by GLEB or its delegated programmes - 215 over the period - the number of jobs created remains small - just over 500 remained in April 1986.

The equal opportunities policy could be considered a success, with 32% of all GLEB loans going to co-ops formed by black or women workers, and 58% of LCEB loans going to similar priority groups. The provision of finance was backed up by other programmes, with training or other development programmes reaching over 100 co-ops (out of 365) over the period 1983-6.

However, the success in stimulating new co-ops, particularly amongst priority groups[91], has not been accompanied by corresponding success with promoting larger co-ops through rescues or conversions. The early failures of the rescue co-ops Third Sector and Custom Shoes, coupled with a lack of expertise, meant that subsequent attempts were more cautious.

The accumulation of experience necessary to deal with rescues was effectively cut short by the abolition of the GLC in 1986, and subsequently the reduced funding and changed political role for GLEB in 1986/7. One of the more promising rescue co-ops - The Lettering Centre - was reconverted to a capitalist firm in 1987.

From the beginning there had been tension within GLEB between those who viewed it essentially as a conventional venture capital institution, and those who supported the objective of 'progressive' restructuring of London's industry. This reflected similar conflicts within the GLC itself, where reactionary members of the council's full-time bureaucracy

89 see chapter 6.

90 see chapter 5.

91 primarily co-ops for women and black workers.

attempted - together with some right-wing members of the ruling Labour group - to jettison the more radical elements of the manifesto on which Labour had been elected[92]. GLEB's activities were always constrained by these conflicting aims. By 1987 most of the more radical members and workers at GLEB had been purged, and the objectives of promoting enterprise planning and workers rights in industry had largely been abandoned; one victim of this change was the previous commitment to co-ops.

Some elements of the GLC's co-ops policy have survived its abolition. There remains an active network of CDAs in London, although, like CDAs elsewhere, their long-term future must be in doubt as local authority funding comes under greater pressure. The LCEB survives and is still financing London co-ops, but again its prospects depend on the availability of finance. Another initiative was the Marketing Resource Centre (MRC), established to provide marketing services for use by London co-ops. Although the MRC survived the demise of the GLC and has managed to attract some non-GLEB funding, the London co-op sector has not expanded as fast as anticipated. As a result there are insufficient co-ops in London to keep the MRC going and its original brief has recently been diluted, and it is now attempting to attract co-ops from outside London, the voluntary sector and non-co-op small businesses[93].

The GLC's commitment to co-ops certainly had a positive impact, and London co-ops probably had as favourable an environment as any others in the country - despite the sometimes strained relations between GLEB and the co-op sector. The long term impact is more difficult to assess. The formation rate of new co-ops in London has fallen dramatically during 1987-89[4], while the ability of existing co-ops to survive remains an unknown quantity. Unionisation is higher in London co-ops than elsewhere, but there are doubts as to whether this state of affairs will continue.

There have of course been problems and failures, but this is to be expected in any radical new policy initiative. Many of the early GLEB projects were with rescues and other high-risk co-ops, but once the co-op unit had been established within GLEB, the ability to undertake effective monitoring of co-ops improved.

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92 Nolan & O'Donnell, 1987, p. 253; Palmer, 1987.

93 New Co-operator, 1987, no.4.

94 New Co-operator, 1988, no.1.

Relations with central government

The GLC attempted to draw parallels with Mondragon in its co-ops policy, but these cease as soon as the role of central government is considered. Mondragon co-ops benefited from central government measures, both in terms of general economic policies and intervention, and specific co-op policies through legal and taxation measures. In Britain all of these factors are missing. The early 1980s were a period of recession, with low economic growth and sluggish demand. Co-ops have no legal or tax concessions in Britain - in several aspects they are worse off than capitalist companies - or indeed any form of favourable treatment from central government. Tory policy has been specifically to ensure that co-ops do not have any 'unfair' competitive advantages over capitalist firms.

It was beyond the power of the GLC to grant legal or tax concessions to co-ops, and the overall resources which the GLC could be devoted to economic intervention were very limited. However there was a failure to appreciate the limitations on what could be achieved in the context of central government policies, and in particular within the structure of market relations. There were two reasons for this. Firstly, the original manifesto and policies were developed on the assumption that a sympathetic government would be in power by 1983 or 1984, or as things became more desperate, by 1987/88. Secondly, there was a belief that local state initiatives were somehow superior to those of the central government, being more democratic and free from bureaucratic rigidities. In many ways the local state is potentially able to develop democratic planning in response to needs, it is crucial to face up to the limitations of local state power vis a vis the forces of capital, which, throughout the period of the GLC's existence, were supported by the central state. However, local economic initiatives must be seen as a complement to, rather than a substitute for, intervention at the national level.

Despite the GLC's attempts to promote a general policy of restructuring which promoted dynamic and technologically advanced 'exemplary' firms, there has been minimal success in applying this to co-ops. As has been pointed out, this form of restructuring tends to widen the division between 'core' and 'peripheral' workers, and one major danger is that co-ops will tend to emerge in peripheral support services rather than in the core firms. Although this is an area which requires further investigation, a cursory examination of the activities of London co-ops suggests that they remain concentrated in peripheral activities. In clothing manufacture, for example, where extensive restructuring along these lines is taking place, there are as yet no co-ops utilising FS manufacturing systems, and as a result they are likely to become more concentrated into sweated subsectors. However, it can be argued that if an increasing division amongst workers is to develop, then co-ops are perhaps an effective way of protecting the conditions of the most vulnerable workers, particularly if co-ops can demonstrate higher levels of union membership and hence act as a counter to the promotion of divisions within the working class.

London's co-op growth only managed to mirror existing patterns of co-op formation; the only transformation was in terms of the increased opportunities for women and black workers. This reflects a failure to appreciate the nature of interaction between co-ops and market relations, and the need to intervene in the operation of the market if co-ops are to be promoted so as to change the nature of work

As with the wider economic policy, the co-op policy was based largely upon an acceptance of market conditions and aimed to assist co-ops to move into favourable market areas:

> Co-ops are as subject to market forces as any other enterprise, though some appear to ignore economic realities and have shown themselves to be as much at risk as the many badly planned or managed small businesses which litter the capital. Because co-ops have in the main stayed on the fringes of the commercial marketplace they are especially vulnerable. Their chances of expansion and growth are consequently limited, and one aspect of the Board's approach is to help provide the support and expertise which co-ops need if they are to gain a more appropriate share of the market[95].

The emphasis seems to be that if co-ops had not stayed on "the fringes of the commercial marketplace" they would have been less vulnerable; however, as we have seen in earlier chapters, these "fringes" could just as well be described as market niches, and co-ops in such activities are in fact *stronger* than those in highly competitive markets. And as we have seen above, other aspects of GLEB strategy aim to encourage firms into up-market niches, where 'restructuring for labour' would be facilitated.

Confusion over the relationship between enterprises - co-ops or capitalist firms - and the market permeates the GLC's industrial strategy. On the one hand, individual firms were to be assisted by restructuring into market niches, where they could both compete effectively and provide improved working conditions, reflecting a policy which aimed to identify favourable market areas and to give selected firms a competitive advantage. It specifically

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95 GLEB, n.d.(d).

did *not* aim to intervene to restructure those market forces; perhaps this was at its most extreme in the sector strategy for cultural and media industries, where finding market opportunities was seen as the way forward and state intervention - particularly subsidies - was strongly dismissed as having only negative consequences[96]. The co-ops policy did differ slightly, however, in that there was an intention to use public sector purchasing power to support co-operatives[97]. The sheer bulk of potential purchasing power could enable co-ops to expand rapidly, and avoid the destructive effects of competition with capitalist enterprises. This reflects the approach taken in support of co-op sectors in France, Spain and Italy. Secondly, the GLC encouraged inter-co-op trading and marketing consortia, such as the London Co-op Printers Association, and the avoidance of inter-co-op competition; this would reflect elements of both the Italian *consorzi* and Mondragon's planned co-op economy. But as with general policies, no attempt was made to enable co-ops to meet local or social needs which could not be articulated through the market.

Although welcome, these initiatives were relatively underdeveloped by the time of the GLC's abolition and the restructuring of GLEB, and London co-ops have largely been left to respond to market opportunities in the same way as any other enterprises.

Ultimately, the thinking behind this and many other local economic initiatives has failed to confront the problem of the dominance of market forces on the operation of co-ops or indeed any other enterprise which attempt to provide an alternative to conventional employment. Although without such intervention niches can always be found where market forces are less strong and co-ops have some flexibility to pursue some of their own objectives, these will not offer a stable opportunity for co-ops. Either they will disappear as consumer tastes change, or, if developed successfully by co-ops, they will be subject to eventual competition from larger capitalist firms - as the experience of wholefood co-ops has shown. Co-ops in such niches can only offer co-operative production and employment to a (fortunate and privileged?) minority of workers. Elsewhere the need to compete and match other firms' efficiency in order to survive pushes them towards capitalist methods of operation. Therefore

> the success on a large scale of co-operatives and other types of enterprises observing socialist principles requires a strong central state, able to interrupt or replace market forces in some areas or, in other words, to create a space by

96 *GLEB, n.d.(f)*
97 *GLEB n.d.(b), p. 37.*

> using taxes and subsidies, the allocation of finance, and controls over markets to protect a sector from such competitive forces[98].

The success of Mondragon has been based upon exactly this kind of intervention by central government; without it, we see a co-op sector in Britain which has grown rapidly but remains fragmented and unco-ordinated, and can appropriately be described as a co-op sector rather than a co-op movement. Most unfortunately, the co-op successes which have been seen cannot even be potentially replicated for all workers, given the crucial importance of production and demand conditions in specific industries, and therefore are potentially divisive to collective organisation. With current central government policies, even with some continued support from the remaining local authorities and CDAs, the fragmentation of the movement is likely to continue.

CONCLUDING REMARKS

The economic changes of the past decade signify a period of capital-oriented restructuring, in which class conflict has risen to a level unseen for a long period in Britain. It is likely that these processes will continue into the future, although they may take a different form. This period was favourable for co-ops, in that the rapid growth of the sector was stimulated, although the growth of the sector has yet to be translated into good commercial performance. Already changes have taken place which will affect the future development of co-operatives. In particular, the abolition of the GLC and the metropolitan counties has removed the main proponents of 'municipal socialism', and consequently removed a major source of funding and support. This is exacerbated by continuing attacks on the powers of remaining local authorities through ratecapping and the introduction of the poll tax, and announcements in 1988 of restrictions on the use of Section 137 funds under which the vast majority of CDAs and other economic development initiatives have been funded. These moves will eventually constrain the funding of co-op support organisations, of training programmes, and specialist sources of finance for co-ops, particularly in view of co-ops' predictable failure to provide a panacea for local unemployment. This could perhaps be partially countered if strong links had been developed with trade unions, but these are still in a state of flux, and without stimulation from active local authorities are highly vulnerable.

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98 Fine & Harris, 1984, pp. 331-2.

However, a major part of the growth of the co-op sector has resulted from changes in the nature of production and accumulation in Britain. This includes the shift of production from large to small firms, and continuing attempts to undermine workers collective strength and class organisation. There is every reason to believe that these trends will continue, thereby providing further (if marginal) economic opportunities for small enterprises. Furthermore, it is to be expected that worker co-operatives may receive support as part of the wider promotion of employee share ownership.

Contrary to the need for intervention to assist co-ops, the strengthening of market forces will have an adverse effect. It is difficult to predict the impact on co-ops' survival rate - it may be that if fewer co-ops are formed, those ones are more likely to survive than if, for instance, CDAs promote co-ops heavily but do not have the resources to support the greater number of co-ops which do emerge, and which are then more likely to fail. However, there will be a reduction in the ability of co-ops to act in workers' interests - working conditions will become more like those in small firms, with poor wages and insecure employment; links with trade unions will be more difficult to maintain as co-ops undermine unionised workers; and co-ops will generally become more 'commercial' in their outlook and mode of operation[99].

Although co-operatives constitute a formal mechanism of workers' control, their inability to escape from wider economic and socio-political forces means that any gains cannot be assured. Their size and economic vulnerability leaves them open to abuse by those with less progressive objectives than the majority of co-op workers. As Fairclough aptly notes:

> Cynical though it may be as a policy, the promotion of co-operatives can be a low cost, if temporary, means of deflecting opposition to big job losses, privatisation and attempts to undermine union organisation, which make little claim on state resources whilst at the same time appearing to meet some of the community's social needs[100].

In present conditions there will be a tendency for co-ops to increasingly replicate small firms. As early as 1984 Bennett noted that market protection is necessary "if any British government was serious in its promotion of co-operatives", but considers this unlikely in the forseeable future; as a result the continued promotion of co-ops "would seem ill-advised, if

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99 Which is similar to one role envisaged for co-ops in the Soviet Union: "As they [co-operatives] grow, income differentials [and] the profit motive . . . . will become more powerful influences throughout the economy . . . . the co-operatives are capitalist wolves in socialist clothing" (The Economist, 4.6.88).

100 Fairclough 1987, p. 11.

not irresponsible, given the risks that co-operative members face .... if these organisations insist on promoting co-operatives, then they must be very selective of the industrries in which they operate"[101]. To have some hope of avoiding this, a minimum requirement would be the replication of some or all of the conditions which have proved beneficial to European co-ops. These include:

- Sources of finance to which co-ops have exclusive or preferential access.
- favourable market conditions created or reinforced by state intervention.
- a tradition of support for workers' co-ops on the left and in the labour movement.
- recognition of a workers' co-operative as a distinct legal form.
- a favourable taxation regime.
- a co-op federation or network of support organisations with powers to plan the development of the sector.

In Britain at present, the first is met minimally, conditions [2]-[5] hardly at all. Much depends upon the survival and resources of existing organisations such as ICOM and various local support organisations. Even so, they remain small and limited compared to the Italian co-op federations and Mondragon's CLP, and are mostly concerned with stimulating new co-ops rather than their continuing survival. At the present time, the prospects are unfortunately for their absorption into conventional small business advice and development agencies, rather than their survival as well-resourced and politicised alternatives.

Further lessons can be learned from Europe, where conditions more favourable to co-ops are in place. There, it appears that co-ops can improve can improve their productivity over time, eventually paying higher than average wages,and gaining some independence. However, experience suggests that even with favourable conditions - and the stable economic environment of the long post-war boom - the establishment of such a co-op sector takes a long time, even without the instability of a period of severe economic restructuring. However, even in these conditions European co-ops lack the radical edge which characterises many of those in Britain, even if they have not degenerated in formal terms. In both Britain and the rest of Europe there have been gains for most of those working in

101 Bennett, 1984, pp. 314-5.

co-ops, which must not be underestimated, but there appears to have been little overall impact in class terms. British co-ops have yet to prove that they can form the basis of a stable and progressive sector of the economy, and even as economic growth proceeds in 1988, co-ops remain - with some individual exceptions - "cuttings from the recession, battling to survive with obsolete plant and equipment, dependent upon commitment to accept low wages and long hours"[102]; a sad reflection indeed on such an innovative form of productive organisation. Co-operatives face a political task as much as an economic one in eliciting sufficient support from the state and labour movement to protect them from the irrationality and instability of their capitalist environment, and yet the situation now is much less favourable than it was in the early 1980s. Marx's sentiments that "Co-operation could never defeat monopoly unless developed to national dimensions . . . only political power could enable it to escape from the 'narrow circles of the casual efforts of private workmen'" remain as true today as they were over one hundred years ago. The workers co-operative movement is a long way from developing on workers' terms.

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102 Eaton, 1985.

Appendices and References

Appendices - Contents

Appendices

Appendix 1 Co-operative principles and legal structures

A1.1 ICA Principles

The general principles underlying workers' co-operatives have been set out as follows by the International Co-operative Association (ICA).

- membership is voluntary and open;
- there is democratic control, usually on the basis of one member, one vote;
- interest on share capital is limited;
- there is equitable distribution of any surplus or savings among the members;
- provision should be made for education of their members, officers and employees and of the general public in the principles and techniques of co-operation;
- co-operatives co-operate in every practical way with other co-operatives at local, national and international levels.

The ICA principles are silent on whether co-ops should be organised on an individualistic or collectivist basis. The additional principles required for a common ownership are:

- only people employed in the co-operative can become members.
- all those working in the co-operative have the right to become members
- capital employed is in the form of loan stock or reinvested profits and carries no element of control (it is collectively owned)
- in the event of dissolution, the members cannot benefit from the distribution of residual assets.

A1.2 Legal status

Co-operatives were first registered under the Industrial and Provident Societies (I&PS) legislation, dating from the 1860s, and revised in 1965. This was established to provide for any kind of mutual or friendly society, controlled by and operating in the interests of its members, and has subsequently been used by workers co-ops, consumer (retail) co-ops, building societies, social clubs etc., although there was no legislation specifically for any one of these forms. A society requires a minimum of seven members, and registrations are overseen by the Registrar of Friendly Societies.

Until recently virtually all co-operatives were registered under this legislation. In the 1970s ICOM developed a set of model rules based upon the I&PS Acts, specifically for common ownership worker co-ops. The specific features of ICOM model rules related to collectively owned assets, with no individual workers shareholdings, and also by the principle of 'disinterested dissolution', with restrictions on the ability of members to distribute a co-op's assets for personal gain.

With the advent of smaller co-ops, there was a need for a different form of registration, and ICOM subsequently developed model rules for common ownership workers co-ops under the Companies Acts, registered as companies limited by guarantee, which require a minimum of two members.

In recent years, registrations of co-ops under the companies Acts have gradually superseded those under I&PS Acts, and in 1987 constituted over 90% of total worker co-op registrations.

ICOM model rules are designed to prevent degeneration through the employment of wage labour (all workers must be eligible for membership), or through control passing into the hands of capitalists (only the minimum share issue is permitted, a nominal £1 per member). However, these conditions are not enshrined in law, and co-op members at any time can vote to change a co-op's Rules or Memorandum and Articles so as to remove these restrictions if it wishes (although it is believed that this rarely happens). The only law relating specifically to worker co-operatives is the Industrial Common Ownership Act (1976) which lays down criteria for *bona fide* common ownership enterprises. These criteria are based on the internationally accepted (ICA) co-operative principles and the two additional principles of collectively owned assets and disinterested dissolution.

The national CDA has also developed model rules. They are less egalitarian than ICOM rules and do not relate to common ownership co-ops.

A few co-ops are structured differently. Examples are:

[1] Incorporation with own rules - customised rules, which fall in between the basic requirements of the legislation and the common ownership structure of ICOM co-ops. These are often used by co-ops converted from capitalist companies.

[2] JOL (Job Ownership Ltd). Model rules concocted by Robert Oakeshott's trojan horse in the co-op movement. JOL co-ops require members to make an initial financial contribution as a condition of joining a co-op - i.e. workers have to buy their jobs (hence Job Ownership). Because of this, JOL co-ops are often not recognised as legitimate workers' co-ops, for instance by the GLC/GLEB. There are very few JOL co-ops.

[3] Co-op Partnerships - not incorporated with limited liability, formally partnerships with agreements which ensure some co-op characteristics. However, partnerships cannot have common ownership of assets.

[4] Unincorporated collectives - no formal constitution and technically a partnership. They operate 'as if' co-ops on an egalitarian and collective basis, but do not have legally enshrined common ownership

APPENDIX 2 SOURCES OF DATA

A2.1 Co-op statistics

A2.1.1 Worker co-op database

The worker co-op database was originally established by London ICOM in 1983, with funding from the GLC, to provide a computerised record[1] of all co-ops in London. This was later extended to include all co-ops in Britain. Information on the database for each co-op included:

- Name, address, telephone
- No. of members, full- and part-time workers
- Industry sector (50 categories); SIC
- Location: region (11 in Britain); town (boroughs in London, about 100 divisions elsewhere in Britain)
- Year registered, year folded (if applicable)
- Trading status (alive or dead)
- Type of constitution or rules
- Activity - up to 50 word description of co-op

Although the setting up of this database had been funded, a substantial commitment was required to keep it up-to-date. Over the period 1984-1987 I devoted approximately 6 months in total to the collection of data for the database, its maintenance, and the writing of software to analyse the data.

The initial sources of information for the database were the co-op directories compiled manually by the national CDA in 1980 and 1982. The expansion of the database to cover the whole of Britain was largely undertaken by the CDA for its 1984 directory, using a telephone and postal survey of all known co-ops.

1 *The database was maintained on an IBM-XT personal computer, using dBase3 Plus.*

Subsequently the main data sources were:

- information submitted by individual co-ops
- information submitted by local CDAs concerning co-ops in their area
- information on 'dead' co-ops gleaned from mail returned to organisations using the database as a source of mailing lists
- postal survey of all known co-ops in February 1986
- postal and telephone survey of all known co-ops in July 1986, carried out by the national CDA for their 1986 directory

The database was used as the source of all co-op sector data in this research, particularly for the statistics presented in chapter 5. It was also used to select co-ops in each industry for financial analysis. The more detailed criteria for selection of co-ops are presented below.

Although a useful research tool, the database was originally intended as a source of information for marketing by and to co-ops (this was the basis of the original GLC funding). It gained some income from the sale of mailing lists, primarily to organisations such as the GLC, GLEB, LCEB, many local CDAs, the CRS, and to co-ops themselves. The structure of the database allowed mailing lists and other information to be extracted according to quite complex requirements.

A2.1.2 Selection of co-ops for inclusion

The statistics on co-operatives presented in chapter 5 and used throughout this thesis are significantly lower than those frequently quoted. For instance the 1986 National CDA directory suggests a figure of nearly 1500 co-operatives (see Table 5.1). The CDA works on the principle that a co-operative known to have registered is assumed to be still trading if no evidence is received to the contrary. This *includes* co-operatives where no evidence other than the registration data is available, even if it is not known whether the co-operative actually started trading. It also includes co-operatives with only part-time workers, and hence can include some very small businesses, and because of their criteria they include co-operatives which have registered but never traded ('idle' co-ops). The CDA also includes community co-operatives, where ownership and control rest with community members and the workers are employees. Both worker and community co-operatives are likely to have economic, social and political objectives, but the internal dynamic by which these are pursued is different[2].

My approach has been stricter on recognising a trading co-operative. Essentially this requires positive evidence, rather than a lack of negative evidence. Therefore I include only co-operatives which are known to be operating and which have given a positive response to some form of contact. This can be contact with a local CDA, or a response to a telephone or postal contact. Use has been made of local CDA information, and the results of the telephone and postal survey which the National CDA made in compiling its 1986 directory, all the results of which are maintained on London ICOM's Worker Co-operative Database (WCDB). All co-operatives which are positively known to be trading are entered on the WCDB as having at least one full-time worker, or more if known. Therefore the criteria of having one or more full-time worker is used to select real co-operatives.

This approach may seem unnecessarily harsh but is supported by other researchers. The same criteria was used by Macfarlane[3]. Perhaps the strongest confirmation that these figures are about right came from a survey of co-operatives in London carried out by Chloe Munro of GLEB. She attempted to contact 180 of the co-operatives thought to be trading in London (of an assumed total of around 400), and made three attempts to contact each co-operative by phone before classing them as unavailable. From the 180 co-operatives she found 92 to be actively trading, and concludes that there were then only 200 active co-operatives in London. She notes "it may be concluded that the frequently recorded statistics on numbers of co-operatives in London are considerably exaggerated"[4]. The London Co-op Enterprise Board (LCEB) estimated the stock of co-ops in London to be 262 at the end of 1987; this suggest that my figures for 1986 (273 co-ops in London, 883 in Britain) may still be an over-estimate.

A2.1.3 Politically informed classification

The above relates primarily to a formal, legal classification of a co-operative, and does not necessarily correspond to a politically-informed conception of what a co-op is. The formal classification merely provides a reference point against which to judge what is/is not a workers co-op, a reference point which contains its own set of values. In particular it pays

2 *Macfarlane 1986, p.10*
3 *ibid.*
4 *Munro, 1987, p.1.*

more attention to a co-op's formal structure rather than how it operates in practice. Therefore, a 'co-op' whose workforce consisted of 20% members and 80% wage labour could be legally a worker co-op, but would not, I suggest, justify being considered as such. There is also controversy over whether the charging of membership 'entrance fees' (as is the case throughout Europe, and in Britain in JOL co-ops) is compatible with being a worker co-op. In practice, the majority of British co-ops neither employ wage labour to any significant extent nor are subject to any external control. There is also room for debate over whether enterprises which are formally co-ops, but which in practice demonstrate little worker participation in control and decision-making, or those which entirely replicate capitalist management and working practices, should be classed as co-ops. I do not pretend to have an answer to this issue, but raise it to demonstrate the weakness of a formal definition, even though this is the one that I have used.

A2.2 Financial data

The source for the financial data used in the project was the annual returns which co-ops are obliged to submit either to the Registrar of Friendly Societies or Registrar of Companies. Although these returns are broadly similar, covering trading and balance sheet information, there are important differences.

Returns to Registry of Friendly Societies: Trading information, including sales, cost of sales, staff costs, overheads, financial charges, and allocation of surplus to bonuses and/or reserves. Balance sheet information is of the usual form, and covers assets and liabilities structure, and financing of net assets from internal and external sources, with details of sources and terms of external loans. Also provides numbers of workers (full- and part-time) and members.

Returns to Registrar of Companies: Similar to the above, but there is no obligation to provide information concerning number of workers, although (less usefully) the number of members is shown. There is also less detail concerning the source of loans.

Recent changes in legislation have reduced further the reporting requirements for small companies (but not Friendly Societies), and co-ops will now have the option of providing very limited financial details which if followed will make this kind of analysis virtually impossible, particularly in view of the rapidly increasing proportion of co-ops registered under the Companies Acts.

Where the number of employees was not given, this information was taken from CDA directories (bi-annual from 1980 to 1986), or directly from the Worker Co-op Database.

The following two pages show the details of information collected from co-ops' annual returns.

WORKER CO-OPS FINANCIAL DATABASE

A	Name of Co-op	....
B	Registered No.	....
C	Date of Registration	....
D	Date of Financial Year End	....
	Completed by	Date...................
E	Members	....
F	Workers - Full Time	....
G	- Part Time	....

TRADING ACCOUNT

H	Turnover	....
J	Cost of Sales	....
	[Gross surpus H-J]	....
K	General Overheads	....
L	Bad Debts	....
M	Wages & Salaries	....
N	Rent	....
P	Depreciation	....
Q	Lease	....
	[Trading surplus H-J-K]	....
R	Grants	....
S	Other Income	....
T	Interest Paid	....
U	Other Debits	....

V	Other Credits	....
W	Employee Benefits	....
X	Tax Paid	....
	[Net surplus after tax]	....
Z	Transfer to General Reserve	....

BALANCE SHEET

AA	Fixed Assets	....		
AB	Investments	....		
AC	Current Assets	....		
AD	Current Liabilities	....		
	[Net current assets AC-AD]	....		
	[Net total assets AA+AB+AC-AD]	....		
AE	External Loan 1	....	Source	....
AF	External Loan 2	....	Source	....
AG	External Loan 3	....	Source	....
AH	External Loan 4	....	Source	....
AJ	Member Loans	....		
AK	Shares	....		
AL	General Reserve	....		
AM	Tax Reserve	....		
AN	CAPEX	....		

NOTES

A2.3 Data Collection

Data Collection. Information was firstly taken from the WCDB and old directories so as compile complete lists of all co-ops which had operated in the three chosen sectors at any point over the period 1975-1986. This included both co-ops still trading in 1986, and those which had previously failed. The collection of financial data took place mostly during 1986, with some follow up in 1987; this determined the time period over which financial data was available.

In general there is at least a two year delay between the period to which data is applicable, and that data being compiled by accountants, audited, submitted to the Registrar, checked and placed on public file. Therefore, the last year for which a nearly complete set of data was available was 1984, although some were available for 1985. Frequently the first return submitted by a co-op covered less than 12 months, or a period before trading was properly under way. Therefore co-ops with only the first return available were excluded, i.e. at least two returns were required for inclusion. Therefore, only co-ops which had been trading since 1983 could be included. Inevitably, data coverage was better for co-ops which remained active throughout the periods than for those which failed at some point. In general, co-ops which failed did not submit returns for the final one or two years of their life. In view of the need for two years of returns, co-ops which failed with three years or less of trading were not generally included.

The sample of co-ops for which financial data was collected therefore covered

- All known co-ops in the three sectors which had traded for two years and were still trading in 1984/5.

- Co-ops which failed before 1984/5 but had submitted two years of returns (effectively which had been trading for 3-4 years before trading).

Therefore, whilst the aim was to obtain data on all co-ops which operated until 1984/5, the actual data obtained is biased towards the exclusion of successful, established co-ops and against younger co-ops and those which failed. A total of of 88 co-ops were included in the dataset. made up as follows:

Wholefood 47; Printing 21; Clothing 20

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Appendix 3

CO-OPERATIVES QUESTIONNAIRE

0

The following questionnaire is being circulated to all co-operatives in order to assist with research currently taking place at the Open Univesity's Co-operatives. Research Unit. The aim of the questionnaire is to collect information on the performance of co-operatives in the UK and the factors which influence this.

The answers will be confidential, except for question 1 which will be entered on to the Worker Co-operatives Database. If you do not wish to answer any particular question, please move on to the next one. If there is not enough space to answer a question please write your answer on a separate sheet stating the question number.

Thank you for your assistance.

1) Please indicate how the co-op was formed (tick one only):

* As a completely new enterprise started from an idea by members or previous members. ______ 1
* As a completely new enterprise started from an idea by an outside body or agency. ______ 2
* As a conversion from an established traditional company. ______ 3
* As a result of closure, redundancy or threatened redundancy and continuing in the same line of business. ______ 4
* As a result of closure, redundancy or threatened redundancy but in a new line of business. ______ 5
* Other (please describe): ______ 6

______

______

2) At the time of formation did the co-op receive substantial advice or support from an outside body (e.g. co-op development agency, trade union? **YES/NO** 7

If yes, please name the body or agency. ______

Has the co-op received such assistance since starting up? **YES/NO** 8

3) Please state the approximate number of workers in the co-op in the first full year of trading. ______ 9

4) Please give the total sales figure (turnover) for the co-operative in the last financial year. £ ______

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5) Please enter below the average number of hours currently worked per week by each category of workers:

	MEMBERS	NON-MEMBERS
Full-time		
Part-time		

11 12 13 14

6) Are different people in the co-op paid different wages? YES/NO 15

Please state which of the following are in line with the co-op's policy?

- equal take-home pay for all workers YES/NO 16
- different wage rates for more experienced/senior workers YES/NO 17
- different wage rates for different jobs YES/NO 18
- different wage rates for different needs YES/NO 19
- workers can only earn more if they work longer hours YES/NO 20
- other (please describe) ______________________ 21

____

7) Please enter below the number of co-op workers currently receiving an average weekly gross wage in the following categories:

	FULL-TIME	PART-TIME
less than £ 10		
£10 -£ 24		
£25 - £49		
£50 - £74		
£75 - £99		
£100 -£124		
£125 -£149		
£150 -£174		
£175 & over		

22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39

Please do not write in this margin

8) To which unions, if any, do people in the co-op belong?

NAME OF UNION	NO. OF PEOPLE	
		40
		41
		42

If some or all workers are union members, is this for reasons which are to do with

- protecting workers' interests within the co-operative **YES/NO** 43

- general solidarity with the trade union movement **YES/NO** 44

- other (please describe): ____________________ 45

____

9) Co-operatives usually have a range of different objectives. Please tick up to 5 of the following which are close to the objectives of the co-op.

* maximising the level of wages and bonuses ______ 46
* increasing employment in the co-op ______ 47
* maximisng job security for existing workers ______ 48
* providing a product or service which you feel is particularly important ______ 49
* participating in the wider labour movement ______ 50
* providing a service to a particular special group within the community ______ 51
* rotating workers between a variety of jobs ______ 52
* sharing and developing a broad range of skills ______ 53
* re-organising work along lines which are different to that which might be expected in a typical company ______ 54
* increasing involvement with the wider co-operative movement ______ 55
* giving members a greater opportunity to have a say in managing the enterprise ______ 56
* maximising profitability and efficiency ______ 57
* other (please describe): ____________________ 58

____

THANK YOU FOR YOUR CO-OPERATION

APPENDIX 4 FINANCIAL STRUCTURE OF CO-OPS

A conventional company balance sheet is constructed as follows:

CAPITAL EMPLOYED

	Fixed assets (plant and machinery, buildings etc.)
plus	**Current assets** (stocks, trade debtors)
less	**Current liabilities** (trade creditors, overdraft, other short term creditors (e.g. tax))
equals	**Net total assets**

FINANCED BY:

Shareholders funds (equity; shareholders loans; profit & loss reserves)

External funds (long term loans (banks, finance houses etc)

The balance sheet is an accounting identity, that is, both sides must balance *by definition* as all of the capital employed in a business must be financed in one way or another. There are certain conventions employed which result from the purposes to which a balance sheet is put, e.g. short term and long term loans are separated out, with the former (those due within 12 months) treated as current liabilities rather than financing of net assets. This reflects the concern of banks and other financing institutions with the perceived stability of a business - is it likely to meet all of its financial commitments due in the next 12 months (through the 'liquidity ratio' of current assets to current liabilities) - although this may have more to do with the banks' traditional assessment of security if the businesses closes, rather than its viability as a going concern.

My purpose here is somewhat different: to investigate the financial structure of co-ops rather than their short term liquidity; this requires some alterations to the traditional arrangement of the balance sheet. For instance, overdrafts must be included with other sources of finance rather than as a short term liability; although legally they are the latter, in practice renewed overdrafts are used by banks as longer term finance. Therefore I have removed overdrafts from current liabilities to external finance (the balance sheet is an identity and items can be added or subtracted from both sides, while the totals will still balance). I have treated trade debtors and creditors as an item to be financed (rather than a source of finance) in the conventional manner. This gives a structure as follows:

CAPITAL EMPLOYED

Fixed assets

Stocks, cash, trade debtors less creditors

FINANCED BY

Internal (members') funds

loans

shares (nominal only)

reserves (retained earnings)

External funds

loans - public sector (local authorities; CDAs; loan funds; ICOF)

loans - commercial sector (HP/finance company; bank term loans; bank overdraft)

loans - private sources (sympathisers, other co-ops)

Members funds are analogous to shareholders funds in a capitalist company, consisting of loans from members plus earnings which have been retained within the business rather than distributed to members.

This is not particularly controversial as the balance sheet still consists of 'stock' items. However there is a complication as far as the financing of co-ops goes, and this stems from the frequent giving of grants to co-ops. These may be start-up grants (towards initial capital costs) or revenue grants (towards operating costs) and if they are applicable to one financial year only (as is usual) they are treated as a revenue item rather than as a 'stock' item, and they appear in the profit & loss (trading) account rather than the capital account. On the balance sheet the impact of grants is therefore felt through reserves - these are increased by the amount of the grant as profit is increased (or loss reduced) by the appropriate amount. The totals are not altered but grants are effectively treated as internal (members) funds, whereas the source of grants (certainly major ones) is the public sector. This is deceptive when the task is to ascertain the sources of finance, particularly as some grants are substantial. Therefore, I have treated grants as public sector financing, by reducing reserves by the amount of grant in any year and increasing public sector provision by the same amount.

APPENDIX 5 SOURCES OF DATA FOR CAPITALIST FIRMS

The most extensive set of data available for capitalist firms is the Business Monitor (Census of Production) series, published by the government's Business Statistics Office (BSO). The PA series covers 3-digit SIC (1980) categories in production, and is published annually. It contains data on the following:

- Number of enterprises and establishments
- Number of workers (administrative and operative)
- Total wages
- Total gross output
- Total net output
- Total gross value added
- Total capital expenditure

Observations

- From these data, operating rations and per capita figures can be calculated.
- Data are collected from a sample of firms and totals are estimated for the whole industry.
- These data are available from 1979; earlier data is only available for the old SIC (1968) categories.
- The data are also presented for different size categories of enterprises, e.g. those with less than 100 workers. Since 1984, more extensive data has been made available, including disaggregation to 4-digit SIC categories.

The PA series covers only production industries; PA475 (Printing & Publishing), and PA453 (Clothing) were used extensively here. Unfortunately there is no equivalent for distribution industries. The quarterly (PQ) series was also used, notably PQ 4754, general printing & publishing.

A5.1 Printing sector data

Data on the capitalist sector is derived from Business Monitor PA475, which includes all firms under SIC 475 (1980). This heading makes almost no distinction between publishers and printers, as the following sub-heading (activity) list shows:

4751 - Printing and publishing of newspapers

4752 - Printing and publishing of periodicals

4753 - Printing and publishing of books

4754 - Other (general) printing and publishing

From 1979-1984 most data was available only for the whole printing and publishing sector (SIC 475). The PQ series gives detailed output figures for SIC 4754, but no other data. Analysis of these figures suggests that output from the *publishing* element of this activity accounts for around (20%) of sales, printing for (80%). Overall the difficulties in obtaining entirely comparable data on capitalist firms is likely to have led to an underestimate of the relative performance of co-ops, although again the trend is likely to be accurate.

From 1984 Business Monitor PA475 provided data by activity heading, which enables a more direct comparison of co-operative performance with that of the *general* printing and publishing sub-sector, rather than printing and publishing as a whole. For the sake of consistency the 1984 figures quoted are on the same basis as earlier ones (SIC475), with subsector figures shown in brackets where applicable.

APPENDIX 6 COMPARISON OF CO-OP AND CAPITALIST FIRM DATA.

It is clear from the data in chapter 3 that co-ops are predominantly small enterprises. Table 3.3 shows that the median size of co-op is 4 workers, that 96% of co-ops have less than 20 workers, and over 99% have less than 100 workers. Given that the comparison of data for capitalist firms and co-ops plays an important role in this research, it is important to identify any problems in making this comparison. To what extent is like being compared with like? This is particularly so when the data for capitalist firms and co-ops is derived from totally different sources; the former from industry level data, from which averages can be calculated, the latter from enterprise level data which is then aggregated. The best available Census of Production data for comparison with co-ops is for firms in the 1-99 workers size category.

The major problem of comparability arises from the fact that for the Census of Production, establishments employing less than 20 persons are not required to complete returns; information from such establishments is therefore not included in the overall data. This is potentially important because, as noted above, the vast majority of co-ops are below this size. Interestingly, Alan Leyshon's Paisley study found that 90% of capitalist firms had less than 20 workers[5]. It is only *potentially* a problem however, because if the performance of firms does not vary a great deal with size, then the omission of small firms will not make the sample biased and cause results differ greatly from the true values. Furthermore, even if the sample is biased, the relative bias should not vary; although direct comparisons might be misleading, any trends over time should be accurately represented.

Because data is not available for the smallest firms, it is difficult to make an assessment of whether very small firms do perform differently. It is possible to see how much results vary with size in the figures which are reported. This is done below for the printing industry. It does show that performance is better for larger firms, although the difference is most noticeable for the very largest firms (1000 or more workers).

5 *Guardian* 16.11.87

Printing sector - index of variation of key variables by size of firm
(1000+ = 100)

Size category	*Gross output per worker*	*Gross VA per worker*	*Average wage*	*Wages/ gross VA*	*Gross VA/ gross output*
1 - 99	87	76	64	84	88
400-499	93	84	67	79	91
1000 +	100	100	100	100	100

Source: Census of Production PA475

These figures do suggest that using data for printing firms with 1 - 99 workers probably over-estimates the appropriate capitalist figures, making co-operatives appear less favourably than they should.

In practice, the differences between co-op and capitalist figures presented in chapter 5 and elsewhere show very large differences between the two, which means that the importance of any comparability errors is reduced. And as noted above, the error is likely to remain constant over time and so *trends* should be accurate.

APPENDIX 7 DEFINITION OF VARIABLES

GROSS OUTPUT - sales plus net additions to stock

less direct production costs (materials)

= NET OUTPUT

less indirect production costs (rent, advertising, other overheads

= GROSS VALUE ADDED

less financial charges and depreciation

= NET VALUE ADDED

less wages

= NET TRADING SURPLUS

plus grants and any other net non-trading credits

= NET SURPLUS

less bonuses and distributions

= TRANSFER TO GENERAL RESERVE

APPENDIX 8 DEFLATOR USED IN NOMINAL TO REAL CONVERSION

Year	*Index*
1975	39.6
1976	47.6
1977	56.6
1978	60.6
1979	67.9
1980	76.1
1981	82.5
1982	89.0
1983	91.8
1984	96.9
1985	100.0

Source: Annual Abstract of Statistics

APPENDIX 9 CPF CO-OPS

Those The few producer co-operatives associated with the Co-operative Productive Federation (CPF), and a few others, have been excluded from this study, but do deserve some separate attention of their own. These were the subject of the Webbs' research, and in fact it is these co-ops which have been the subject of all previous empirical neoclassical economic research on co-operatives in Britain[6].

These co-operatives are the survivors of the producer co-operative movements of the 19th and early 20th centuries. In today's terms they are strictly speaking not workers' co-operatives at all, but 'Co-partnerships'; that is partnerships of workers, ex-workers, family members, retail co-op societies, other producer co-ops and trade unions. Membership of the co-op is open to some or all of these groups, depending on the individual society's constitution; at Blackfriars Press, for example, it was until recently a condition that people could could only join the co-operative if also members of the Independent Labour Party. As a result, workers were and are often in a minority of the membership in CPF co-ops; more importantly perhaps, it has often been the case that only a minority of workers are members. This was the characteristic of British co-ops which the Webbs found so offensive, and which if enforced by the members is in my opinion incompatible with the nature of a co-operative.

All CPF co-ops are incorporated under the I&PS legislation, which actually permits the limited issue of shares, and the sale of shares as a condition of membership was used by many societies to raise capital.

Despite this lack of 'purity' in today's common ownership terms, the CPF co-ops had genuinely working class origins, contrasting with the trend for many of today's co-ops to be set up by the offspring of the bourgeoisie. For instance, the workers who established Equity Shoes insisted in the co-op's constitution that the Committee of Management should include none but 'practical men'[7]. Although in the narrow sense they were not under worker control - i.e. they were not controlled by their workers - they certainly were 'worker controlled' in class terms, possibly more so than many of today's co-operatives. Several (including Equity Shoes and Walsall Locks) were formed after strikes or lockouts. Their

6 *Jones & Backus, 1977.*

7 *Oakeshott, 1978; Kirkham, 1971.*

objectives - of linking different working class movements - were certainly aimed at building class solidarity, even if in practice many co-ops did come to accept capitalist values and the protestant work ethic, and soon became divorced from any revolutionary approach to transforming capitalism by the imperatives of surviving in a competitive market. Over time they moved away from the labour movement and kept few links. One CPF co-op - Bristol Printers - was wound up by its members so that they could cash in on the capital value of the co-op's assets; a far cry from today's common ownership principles.

These co-operatives have been excluded from the scope of this thesis not because of any condemnation of their status but because they are subject to a historically different dynamic to that of the new wave of co-ops; not only that, but their relatively large size would tend to swamp the newer co-operatives. However, for interest I include below details of the CPF co-ops on which information is readily available.

1. Surviving Co-partnerships - 1988	
Queen Eleanor	(formed 1898, 54 workers)
Equity Shoes	(1886, 208)
NPS Shoes	(1881, 65)
Watford Printers	(1921, 30)
Avalon Footwear	(1892, 100)

2. Co-partnerships surviving until 1960.	
Printers	
Blackfriars Press	Hull Printers
Ripley Printers	Nottingham Printers
Leicester Printers	Derby Printers
Bristol Printers	
Clothing and Footwear	
Avalon Footwear	Alcester Productive
St. Crispin Footwear Manufacturers	Kirkby in Ashfield
Sunray Textiles	Wigston Hosiers
Ideal Clothiers	Chesham Boot
Kaycee Clothing	Crompton Boot
Glenfield Progress	Holyoake Footwear
Excellon Shoes	Midland Boot
Sperope Boot	Toy Town Shoes
Other	
Walsall Locks	Data Film Productions
Leicester Carriage Builders	Co-operative Planning

Source: Co-operative Union, 1960; Oakeshott, 1978; Jones, 1976; Registrar of Friendly Societies

It has been estimated by Derek Jones that numbers of CPF co-ops surviving in certain years this century were:

Year	*Index*
1905	112
1913	71
1924	64
1936	50
1950	44
1960	37
1970	26

Source: Jones, 1976

APPENDIX 10 STANDARD REGIONS

South East: Greater London, Bedfordshire, Berkshire, Buckinghamshire, East Sussex, Essex, Hampshire, Isle of Wight, Kent, Oxfordshire, Surrey, West Sussex,

East Anglia: Norfolk, Suffolk, Cambridgeshire.

South West: Avon, Cornwall, Devon, Gloucestershire, Somerset, Wiltshire.

West Midlands: West Midlands, Hereford & Worcester, Shropshire, Staffordshire, Warwickshire.

East Midlands: Derbyshire, Leicesteshire, Lincolnshire, Northamptonshire, Nottinghamshire.

Yorkshire & Humberside: South Yorkshire, West Yorkshire, Humberside, North Yorkshire.

North West: Greater Manchester, Merseyside, Cheshire, Lancashire.

North: Tyne & Wear, Cleveland, Cumbria, Durham, Northumberland.

Wales: Clwyd, Dyfed, Gwent, Gwynedd, Mid-Glamorgan, Powys, South Glamorgan, West Glamorgan.

Scotland: Borders, Central, Dumfries and Galloway, Fife, Grampian, Highland, Lothian, Strathclyde, Tayside and the Orkney Islands, Shetland Islands and the Western Isles.

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